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ECONOMIC INTELLIGENCE REPORT *ST/P/K*

INSTITUTIONS AND ARRANGEMENTS  
IN INTERNATIONAL TRADE AND FINANCE  
WITHIN THE SOVIET BLOC



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ECONOMIC INTELLIGENCE COMMITTEE  
SUBCOMMITTEE ON INTERNATIONAL TRADE AND FINANCE

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FOREWORD

Economic activities, like political activities, within the countries of the Soviet Bloc are subject to over-all controls. These controls are based largely upon Soviet national policies, but not much is known of the mechanisms by which these controls are exercised.

This report endeavors to explain the institutions and arrangements through which international trading and financial and related processes are planned and carried out by the European Satellites. Particular attention is paid to the mechanisms of Soviet control. The imperfectly understood functions of the Council for Economic Mutual Assistance (CEMA) and of the other instrumentalities of Soviet economic domination over the Satellites are related, insofar as can be, to the internal administrative structures of the Satellites and to the actual processes through which levels of output and international trade are determined.

The subject matter of this report has been treated in three principal sections. In Section I a background description of the historical and institutional setting for intra-Bloc economic relations is given. Of particular interest is the section dealing with CEMA, which seems to be an important instrument of Soviet policy, although little specific information concerning it has been available. In Section II the operations of intra-Bloc trade and finance are subjected to further analysis. Soviet-Satellite economic relations are contrasted with economic relations among the Satellites. The "commodity approach" characteristic of intra-Bloc economic relations is described, as are the processes of capital movements and foreign exchange transfers. Section II shows how the Soviet rulers can, and presumably do, exercise control over the Satellite economies without recourse to Party and security organs. The indirect methods of control are stressed, for they are likely to become increasingly important as the Soviet international system becomes better ordered, just as increasing reliance has been placed on "control by the ruble" within the USSR. In Section III, economic integration within the Soviet Bloc is examined. This "integration" is peculiar in that autarkic institutions modeled on those in the USSR were first introduced in the Satellites, and subsequently the attempt has been made to assimilate these autarkic institutions into an "international" system. An examination of these institutions is presented, in conjunction with a discussion of the meaning of integration and of the results which may be anticipated under Bloc conditions.

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This report was prepared on the basis of contributions from the Federal Reserve Board, the Department of State, and the Central Intelligence Agency. The report has been concurred in by the EIC Subcommittee on International Trade and Finance, including representatives of the Departments of State, the Army, the Navy, and the Air Force, and of the Central Intelligence Agency; of the Departments of the Treasury, Defense, and Commerce; and of the Federal Reserve Board. The Economic Intelligence Committee has approved the issuance of this report.

This report was completed in December 1954 and contains information to that date. The material available indicates that a steady development of institutions and practices has been taking place within the Soviet Bloc, but the report should continue to be of use as a background study for some time to come. The report deals with the countries of the Soviet Bloc only and does not consider Communist China.

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INSTITUTIONS AND ARRANGEMENTS  
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Summary

Economic relations among the countries of the Soviet Bloc are characterized by (1) bilateralism, (2) control by the USSR through CEMA and other means, and (3) a limited but increasing degree of economic integration. These economic relations operate through the institutions of international trade and finance.

1. Bilateral trade agreements are negotiated through Ministries of Foreign Trade, which specify the quantities and/or value of goods to be traded between each pair of countries. Negotiations between the USSR and individual Satellites are dominated by the Soviet representatives, who in effect dictate the terms of the annual trade agreements. Bilateral negotiations between the various Satellites have been prolonged and often acrimonious. Final agreements have sometimes been reached only after elaborate bargaining or, occasionally, arbitration by Moscow.

Currently, these agreements are characterized by a bilateral balancing of current payments. Transfers of foreign exchange to settle payment imbalances are apparently undertaken only in exceptional cases. Total trade between any pair of trading partners need not, however, balance, because planned shipments of goods outside of commercial agreements are charged against various capital or invisible accounts (including loans, reparations payments, transfers of profits accruing to the USSR from joint corporations operating in the Satellites, etc.). The functioning of this bilateralism appears to be cumbersome and inefficient in practice, and there are some indications that the Soviet Bloc is becoming increasingly aware of the advantages of the transferability of current balances in order to add flexibility to the trading system.

2. Soviet controls over the Satellite economies are exercised in two basic ways:

a. Over-all economic coordination is apparently undertaken primarily through CEMA, ostensibly an international organization but clearly dominated by the USSR, which maintains an administrative

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staff with headquarters in Moscow. Its activities have been conducted with great secrecy, so that conclusions as to its functions must be tentative. Judging from its original charter (1949) and from fragmentary reports, CEMA seeks to coordinate the trade plans of the Soviet Bloc countries, and it has also gradually acquired long-term planning and allocation functions. It now appears to coordinate the planning organs of the individual Bloc countries, thereby securing a unified approach to internal economic policies (including the acceleration of industrialization). CEMA is presumed to have played a leading role in the progress toward a coordinated or single plan which most of the Bloc countries will begin in 1956. CEMA also occasionally sponsors inter-Satellite development projects.

b. Direct Soviet control methods, which are more completely understood and documented, include the following: (1) Soviet government missions in the Satellite capitals collect information on economic developments in the Satellites, and thereby provide the basis for subsequent exercise of influence by the USSR through CEMA. These missions do not appear to have direct supervisory powers over Satellite affairs, except in matters specifically relating to Soviet-Satellite trade and to Soviet property. (2) Industrial operations are influenced by the appointment of Soviet economic and technical advisers to Satellite economic ministries (a practice which has been extended to East Germany since the dissolution of the Soviet High Commission). (3) As the controlling member of the recently dissolved joint corporations which accounted for a large part of the industrial output in Rumania, Hungary, and Bulgaria, and through control of the SAG plants in East Germany, the USSR could direct considerable sectors of the industry of these countries. (4) As a lender of funds for construction purposes, the USSR can select projects which are useful to it. (5) As an important purchaser and supplier of raw materials and industrial equipment, it can influence to a significant degree the direction and volume of over-all Satellite trade through its control over the volume and prices of trade which individual Satellites carry on with the USSR. Thus Soviet planners, without issuing direct orders to the Satellite governments, can significantly influence the volume of resources which those governments have available for their own programs.

3. Economic integration within the Soviet Bloc has increased steadily in recent years. The first step was the "negotiation" between the USSR and the Satellites of long-term trade agreements, the fulfillment of which imposed limiting conditions on the size and direction

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of Satellite industrial development, followed by the creation of CEMA as a potential over-all planning agency. The next step was the establishment of planning and control mechanisms within the Satellites, capable of promoting the objectives of the economic plans. The development of these internal systems for controlling the production, allocation, and utilization of particular materials has been closely related to specific international trading problems in the individual Satellites. Further unifying measures in the last few years have included simplification of international payments procedures, standardization of railroad freight rates, and announcement of the principle of uniformity in the export prices of given Bloc countries to all Bloc importers (though different export prices are charged by the several Bloc countries).

The final stage in the integration process, which would involve the supplementing of political controls exercised by Party and security organs by controls exercised through economic incentives and pressures, and which would require the establishment of financial and monetary mechanisms to adjust the internal economies of the Satellites to over-all Bloc programs, has not been reached. The Satellites still exhibit persistent inflationary tendencies which have impeded the operation of these mechanisms and the effective integration of the Satellites into an over-all functioning Bloc system, despite the formal establishment of institutions such as CEMA and of planning procedures such as the allocation schemes. It is to be concluded, therefore, that the integration of the Satellite economies into a coordinated economic unit is still incomplete and is not comparable to integration within the USSR.

---

I. Institutions Involved in International Economic Activities in the European Satellites.\*

This section begins with a brief historical account of the establishment of Soviet dominance in Eastern Europe and of the political and military institutions through which dominance has been maintained. There follows a general statement on the methods by which Soviet economic intervention in the Satellites was achieved, and then a

\* A map (UNCLASSIFIED) showing the Soviet Bloc follows p. 4.

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description of the principal institutions involved. These institutions will be discussed in the following order: first, national agencies within the Satellites; and, second, supervisory agencies divided into international agencies within the Satellites and Soviet agencies in the Satellites.

A. Establishment of Soviet Dominance in Eastern Europe.

Prior to World War II the countries of Eastern Europe had gradually come under the economic and later the political and military domination of Nazi Germany. Although wartime industrial and agricultural prosperity prevailed in some areas, many of these countries suffered physical destruction from active warfare. By the end of the war, production and communications were disrupted and currencies were inflated. Further damage was caused by postwar droughts. The Red Army thus moved in as liberators or as victors to an area disorganized by the war and demoralized by previous German hegemony. After a period of political and economic penetration, which varied from country to country, the transformation into Soviet Satellites was effected.

In Poland a Communist-dominated Committee of Liberation was organized and was established in Lublin during July 1944; on 31 December 1944 a provisional government was formed by this committee, ousting the government-in-exile in London. In the south, Communist-dominated regimes took power immediately after liberation: the dates were September 1944 for Bulgaria, October 1944 for Yugoslavia, and November 1944 for Albania. In three other countries, interim periods occurred during which coalition governments held office under varying degrees of Communist influence. Clear-cut Communist domination was established by March 1945 in Rumania, May 1947 in Hungary, and February 1948 in Czechoslovakia. In June 1948, however, Tito's relations with the USSR were effectually broken, so that after that date Yugoslavia cannot be considered a Soviet Satellite. East Germany was occupied by Soviet troops, so that Communist domination was immediate. Formal steps in its transformation from an occupied territory into a Satellite status similar to that of the other countries began in October 1949 with the establishment of the German Democratic Republic.

Soviet domination was achieved largely by indirect means -- that is, through native Communist parties rather than overt conquest. Communist-organized local committees assumed informal powers during the period just before and after German withdrawal. In obtaining

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and consolidating their power, once a governmental structure was established, Communist Party groups placed particular emphasis on control of the police and the courts and on the mobilization of all means of communication (press, radio, etc.) in support of their objectives. Another aspect of Party control was the infiltration of influential social organizations like churches and labor unions or, failing that, limitation of their functions to harmless activities. "Departments of Cadres" or "Personnel Bureaus," staffed by Party members who were trustworthy in Soviet eyes, were to be found not only in the party itself but in every state ministry. These had as duties the supervision of political reliability and labor efficiency in the entire population by means of observers stationed in offices, factory shops, and villages. The hiring, firing, and transfer of personnel were also subject to their approval. Political offenders were dealt with by the police with little regard for individual rights or usual legal procedure.

Soviet control was significantly bolstered by the presence of Red Army troops, even though direct military action was avoided. Uniformed Soviet troops were concentrated in varying degrees, most strongly in East Germany and Hungary. Red Army units were also settled as civilians in certain strategic areas in Rumania, Bulgaria, and farther up the Danube.\* In addition, Soviet personnel were assigned to the Satellite armies, either as advisers or as line commanders in key posts.\*\*

B. Methods of Soviet Economic Intervention.

As Communist Parties grew stronger within the Satellite countries and relations with the USSR became more important and well defined, the following pattern of Soviet intervention in the economic sphere emerged:

1. Coordination took place at the top only. Soviet personnel did not establish continuing contact with Satellite nationals at all levels of the state or establish industrial hierarchies in order to see that the aims of Soviet economic policy were achieved; instead, they maintained close relationships with relatively few top Satellite

\* C.E. Black, "Soviet Policy in Eastern Europe," Annals of the American Academy of Political and Social Science, May 1949, p. 157.

\*\* Dinko Tomasic, "The Structure of Soviet Power and Expansion," ibid., September 1950, pp. 34-35.

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officials, thus keeping their presence in the background and their power indirect. For some purposes, Satellite officials went to Moscow to obtain approval of their actions; in other cases, contact with the local Soviet embassy or trade mission was sufficient. This system was extended to East Germany, after the dissolution of the Soviet High Commission, by the appointment of Soviet advisers to such ministries as Finance and Construction, among others, and to the State Planning Commission. There are, of course, instances in all Satellites of Soviet advisers being found at levels lower than the ministry level.

2. Because Soviet influence was exercised through high Satellite officials, the position of the latter became of central importance. Effective internal organization in the Satellites that guaranteed the reliable execution of policies as determined at high administrative levels was necessary. This implied an absence of legislative or judicial restraints on the executive branch and a strongly centralized decision-making process within the latter. This result has been achieved in practice. Although legislatures and courts continue in existence, their subservience is assured.

3. Satellite institutions have been modeled on those of the USSR, in part because these supplied the administrative centralization needed for Soviet intervention. Foreign trade, industry, and banking were nationalized at an early stage; domestic trade and handicraft production were nationalized more slowly, and small proportions of these activities are still in private hands; in agriculture significant collectivization began only in 1949 or 1950, and only in Bulgaria has it affected as much as 50 percent of arable land. In East Germany, similar changes have occurred with a 2- or 3-year lag behind other Satellites.

4. As in the USSR, extensive direct planning of all economic activities, including trade and finance, has been relied upon. State Planning Commissions formulated comprehensive plans for the quantities and composition of goods to be produced or handled by individual enterprises, and a system of auxiliary controls was developed to bring about conformity to these plans. Rewards and punishments, pecuniary and otherwise, were given out on the basis of plan fulfillment. Since the introduction of the "new course," incentives have also played a role in exhorting workers to plan fulfillment. Further controls took the form of supervisory agencies dealing with credit, materials allocation, manpower, and productivity norms and were

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intended to reenforce conformity to plans. Not all Satellites have all these controls, and efficiency in planning and in performance varies widely, but the trend has been in the direction of elaborating and strengthening controls similar to those in the USSR.

5. This emphasis on detailed economic plans in internal matters has involved reliance on well-defined intra-Bloc agreements, enabling planners to predict imports and exports. Consequently, trade and financial relationships with the Soviet Bloc have been characterized by formal agreements and, generally, by an exaggerated concern with protocol. Even loans and investments, which in the West would be purely financial transactions, are accompanied by lists of goods the export and import of which correspond to the flow of credits, interest, or repayments. Thus international economic relations in the Bloc are conducted on the basis of a "commodity approach" which permits their coordination with internal planning procedures. Satellite export obligations to the USSR are especially well defined, and penalties for failure to deliver are enforced.

C. Economic Agencies in Satellite Countries.

The Satellite agencies which are most important in an analysis of international economic relations are the Ministries of Foreign Trade, the Central Banks, the State Planning Commissions, and the wholesale trading agencies. Some of these agencies might, at first glance, seem to have nothing to do with international economic relations. It will be shown, however, that since foreign trade programs have repercussions upon the internal economies of the individual countries, even agencies ostensibly concerned with purely domestic economic affairs may be affected by the foreign transactions of the country.

1. Ministries of Foreign Trade.

Ministries of Foreign Trade in the European Satellites have the function of supervising foreign trade and carrying out foreign trade transactions. The ministries are responsible for conducting negotiations with foreign countries resulting in trade and payments agreements and in lesser deals and agreements, and their personnel participate in joint international commissions which supervise the terms of these agreements and settle minor disputes. Separate but similar units administer trade within and outside the Soviet Bloc. Statistical and research functions, the administration of customs duties and other taxes, and inspection duties are also performed by foreign trade ministries.

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Specifically socialist functions result from the fact that all foreign trade is conducted by the state. These functions include: (a) the administration of state trading companies, which conduct trade transactions in particular commodities for each Satellite country, and (b) the maintenance of liaison with production ministries in a relationship which would not be found in countries where private enterprise prevails. In addition, agents of Satellite foreign trade ministries engage in illegal procurement in Western Europe.

Like all economic activities in Communist countries, foreign trade is conducted within the framework of a "plan." Trade plans, formed on the basis of import requirements and export availabilities of specific commodities in the general production plan, are coordinated at the national level in the State Planning Commissions. The international coordination necessary to the efficient functioning of such a system takes place in Moscow under the auspices of the Council for Economic Mutual Assistance (CEMA).

The position of the Ministries of Foreign Trade in this planning structure is similar to that of production ministries, except that their trade plans are not so restrictive as output plans. The negotiation of East-West trade agreements is a complex task in which foreign trade ministries are allowed a certain latitude not granted to production ministries. In the early postwar years, when deliveries from one Satellite to another were relatively unpredictable and the exercise of bargaining power was necessary to protect national interests, the foreign trade ministries had a similar function in intra-Bloc trade as well. But as the effective regulation of intra-Bloc trade increases, foreign trade ministries come more to resemble internal wholesale trading agencies which administer predetermined policies.

2. Central Banks.

Banking institutions in the Satellite countries are subordinate to the Ministries of Finance. There are now only a few large banks in each country, each performing a specialized function. The largest bank, called a State or National Bank, usually monopolizes the granting of "commercial credit" to productive and state trading enterprises, including foreign trade monopolies; other banks provide credits for long-term investment, for agriculture, or for private trade; still other banks serve as repositories for individual savings and may, within limits, make loans to private individuals.

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Economic enterprises are governed by plans which specify the commodities or services involved. The output plan for any single enterprise is coordinated with a financial plan which designates the amount, nature, and timing of inventories and bank credits needed to fulfill the output plan. This system gives to the banks the role of indirect control over the activities of their customers, since the banks' extension of credits is expected to conform to the financial plan.

The banking system is relevant to a study of intra-Bloc relations because (a) the accounting system used in international transactions is centralized in the banks, (b) gold and foreign exchange are held by the banks, and (c) the credit policies of the banks (as is shown below) affect the ability of the foreign trade authorities to carry out their plans.

Very little is known about the methods of allocating foreign exchange received as a result of trade. Like trade itself, the quantities (and timing) involved are not readily predictable. One report indicates that in Czechoslovakia such allocations are made at monthly meetings attended by representatives of the foreign trade monopolies and of the international department of the National Bank. 1/\* The governing principles for action and the role played by bank representatives in making the decisions were not revealed.

3. State Planning Commissions.

The State Planning Commissions or Offices serve as a focal point in the complex economic planning procedures of Satellite countries. These procedures have varied considerably through time and differ from one country to another, but the basic elements of the process are similar.

In general, the Economic Council (or Council of Ministers) determines the over-all policy objectives, and the Planning Commission of each country translates these into precise quantities at the same time that it reconciles the plans supplied from the ministries. The Planning Commission also administers the new planning techniques (insofar as they are employed) and serves as a central statistical office. The Planning Commission sends out directives to the Ministries in advance of the latter's plan submissions indicating desired

\* For serially numbered source references, see Appendix D.

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rates of increase (and norms), such directives often being expressed in some detail. Conflict is inevitable between the ambitions of higher authorities and the desires of lower level management to set goals which can be readily achieved. In Czechoslovakia, under a system inaugurated with the 1953 Plan, the State Planning Office makes up an independent plan, separate from those submitted from the ministries but based on the same general directives, and reconciliation of the two sets of plans occurs at the next higher level. This represents an extreme, however, and in other countries the Planning Commission usually constitutes the effective central authority in settling particular conflicts over plans. The position of the Planning Commission depends to some extent on the personalities involved in the various interacting groups and on their relative strength in commanding support by the Communist Party.

Generally, there is a movement of plans from the bottom to the top of the hierarchies concerned. That is, there are plans made up by factories and national enterprises and submitted to main administrations and thence to production and trade ministries for approval or modification and coordination in line with nationally determined policies. Each of these units has a planning department which engages in this work. Plans as formulated by ministries are then given to the State Planning Commission for nationwide coordination, and final approval is given by a higher body of roughly cabinet rank which deals with over-all economic policies. This body has had different titles (for example, Council of Ministers, Economic Council, or Presidium), and its membership has varied, but the function is always present. The last step in this process is formal ratification by the top national legislative body.

The most important respect in which planning procedures differ is the extent to which initial directives from the top are supplied to those who are formulating plans at lower levels. When planning was first undertaken, the inexperience of the planners at all levels made it necessary for higher authorities to give a great deal of general supervision and direction to subordinates; since then, as local management personnel have learned what is expected of them, a certain kind of decentralization has come about. At the same time, the introduction of more refined planning techniques along Soviet lines has increased the volume of top-level activity and provided more precise (and narrower) limits to the scope allowed for local decisions. Such techniques include the formulation of general norms

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for productivity in the use of labor and raw materials (either for the level or the percentage change in productivity), the formulation of more precise over-all materials allocations, and the development of more effective general standards for judging proposed increases of output.

There are several types of plans which differ in function. The Five (Six in the case of Poland) Year Plans provide a design for over-all industrial development. Annual plans supply targets which serve as effective criteria for the performance of industries and their subdivisions. Quarterly and monthly plans represent a necessary series of adjustments to actual supply and requirements situations as these develop. The Five Year Plans appropriately are defined in less detail than those for shorter periods and may be revised in the light of experience.

Five Year Plans are in some but not all cases timed to coincide with the Soviet 1951-55 Plan. Poland, Rumania, East Germany, and Albania have long-term plans terminating in 1955. Czechoslovakia and Bulgaria have had plans terminating in 1953, but there has been public discussion of new plans coordinate with Soviet timing in Czechoslovakia. For this reason, Czechoslovakia had only annual plans for the years 1953 and 1954. Hungary will complete a Five Year Plan in 1954 and also will have only an annual plan for 1955. In Bulgaria a Five Year Plan ending in 1957 was initiated, following alleged completion of an earlier plan in 1952. With the exception of Bulgaria, therefore, all the European Satellites and the USSR will embark upon new Five Year Plans in 1956.\* There have been many public expressions of the coordinated nature of these plans. As CEMA becomes more active in dealing with this coordinated or single Bloc plan, the functions of Satellite planning commissions may be expected to show greater emphasis on detail and less on policy determination.

4. Wholesale Trading Agencies.

The nationalization of wholesale trade in Satellite countries was begun in 1947-48 and is believed to have been completed by late 1949 or mid-1950. An exception is East Germany, where internal

\* The fact that Bulgaria's Five Year Plan does not coincide with the rest of the Soviet Bloc should not be interpreted as an indication of Bulgaria's independence, since in fact Bulgaria's plan will undoubtedly be coordinated with the 1956 plans of the rest of the Soviet Bloc.

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trade has not been nationalized under any general decree and where 25 percent of the wholesale trade is still in private hands.

The agencies handling socialized wholesale trade are of two main types -- trading enterprises supervised by Ministries of Internal Trade (in East Germany and Albania internal and foreign trade are handled by the same ministry) and purchasing or selling branches of the production ministries. Sometimes the precise affiliation of wholesale trading enterprises is obscure. In all countries there is a mixture of the two types. The latter types deal mainly with producer goods, and the former with consumer goods.

D. Supervisory Agencies.

The term supervisory agencies is used to designate those economic institutions through which Soviet control is effected in the Satellites. These institutions are of two main types. First, there are international agencies which are in effect Soviet-dominated. Second, there are Soviet agencies within the Satellite countries. By far the most important international agency is the Council for Economic Mutual Assistance (CEMA), through which, it is thought, central planning and the coordination of trade and finance are effected. Inter-Satellite Councils for Cooperation also sponsor international economic activities, though it is likely that Soviet backing is needed for these to become effective. Direct Soviet-Satellite relationships are handled by the trade and the munitions production missions permanently attached to Soviet embassies in Satellite capitals and by temporary Soviet advisory groups in the Satellites.

1. International Agencies.

a. Council for Economic Mutual Assistance.

(1) Introduction.

The Council for Economic Mutual Assistance (CEMA)\* was established in January 1949. It appears to have been established in part as a reaction to the establishment of the Organization for European Economic Cooperation in Western Europe at the inception of the European Recovery Program. Given Soviet propaganda motivation for its establishment, and the secrecy which has since enveloped it, some

\* Also referred to (particularly in Europe) as COMECON.

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observers have concluded that CEMA is purely "window dressing." The following discussion, however, will argue that it appears to be the major international organization in the Soviet Bloc concerned with economic problems. It originally consisted of the USSR, Poland, Czechoslovakia, Rumania, Hungary, and Bulgaria. Albania was admitted to membership in February 1949 and East Germany in late 1950. The broad purpose of this organization seems to be the coordination of the economies of the member countries within a general economic plan, and a harmonious specialization of the Satellite economies within limits set by Soviet economic policies. 2/

Other international organizations within the Soviet Bloc appear to have no functions related specifically to economic planning. The Cominform is an organization of the Soviet Bloc, the French, and the Italian Communist Parties. While it is probable that the Cominform deals with some matters of economic policy, including intra-Bloc relations, it is likely that these discussions are on a very general level and that they have little to do with the actual coordination and integration of the Satellite economies. The position of the Cominform in this respect is in marked contrast with that of the domestic Communist Parties within the Bloc. The Cominform seems to maintain a separate identity from that of the governmental administrative structure and to avoid becoming entangled in daily matters of economic administration. Satellite Communist Parties, on the other hand, are involved in control and supervision of every detail of governmental and economic administration in their respective countries.

Similarly, some sources 3/ speak of a Council of Foreign Ministers of the Soviet Bloc, which in some respects may issue policy directives to CEMA. The Foreign Ministers of the Bloc are ordinarily little concerned with either foreign trade or economic planning, which are under the jurisdiction of separate organs of cabinet status within the countries themselves. Since the principal objects of CEMA interest are, as nearly as can be determined, economic planning and foreign trade, it may be doubted that such a council would have any great control over the operations of CEMA.

Although it is possible to distinguish CEMA's functions from those of the Council of Foreign Ministers and of the Cominform, it is difficult to draw a clear-cut distinction between the Satellite-Soviet intergovernmental relations and Satellite-CEMA relations. If such a distinction could be made, it would point to the existence of CEMA as a separate organization with an operational existence of its own.

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The available information has not made it possible to clarify these relations precisely. Investigation of the activities of the State Planning Commission and the Ministry of Foreign Trade of the USSR reveals that they play a real and positive role in shaping economic policies for the Soviet Bloc as a whole. There has not been enough information, however, to state positively that they have direct contact with their Satellite counterparts. In the case of Gosplan, much of the evidence indicates that it uses CEMA as its go-between. In the case of the Ministry of Foreign Trade, there is ample evidence that some of its personnel are also active in the CEMA organization. In any case it is highly improbable that any action taken by the CEMA would not be coordinated with either of these Soviet agencies or with other Soviet policy-making bodies. It is quite probable that CEMA is the chosen medium for both of these agencies in imposing their policies upon the Satellites.

From the economic point of view, CEMA exists only to achieve Soviet policies for Bloc trade and Bloc planning. Therefore, the question of whether CEMA exists as a separate organization with an operational existence of its own is fairly academic. As an active force in effecting concerted action by the Satellite economies, it makes little difference whether CEMA is an actively operating international organization or whether it is an integral part of the Soviet government.

(2) Organizational Structure.\*

The purported text of the CEMA agreement\*\* indicates that the organizational structure of CEMA is similar to that of most Soviet institutions. There is a Council, consisting of representatives of the member countries, which "will be convened whenever it may be necessary" but at least quarterly. The daily operations are conducted by a permanent Secretariat in Moscow, which "has the authority to make any decisions, subject to their ratification by the Council at its first meeting." According to one report, there is a Subordinate Council and a Technical Council, 4/ in addition to the Secretariat and the Council, which is referred to as the Supreme Council.

\* See Figure 1, following p. 14.

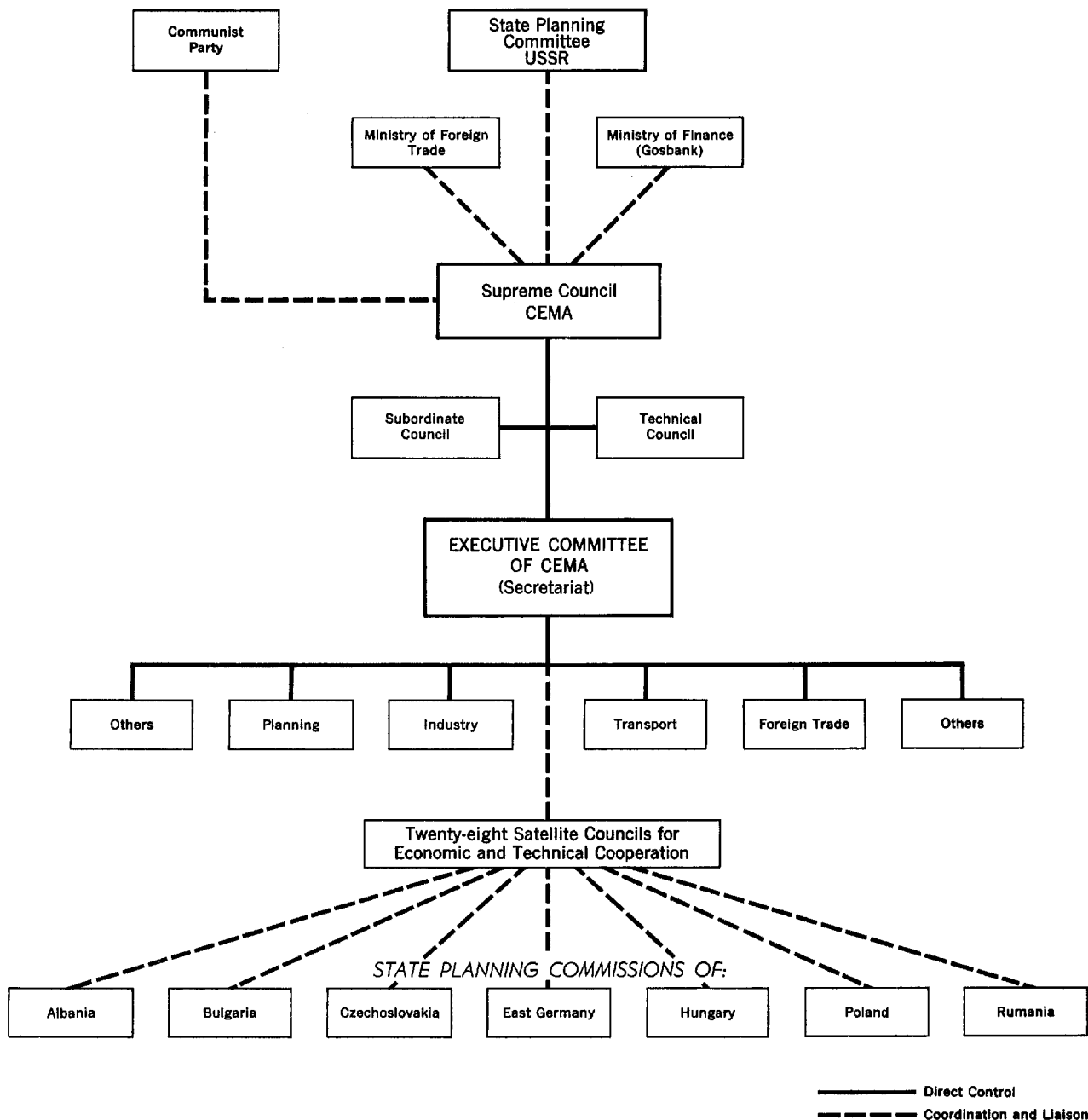
\*\* See Appendix A for CEMA Protocol. (The New York Times of 4 June 1949 gives substantially the same version of the agreement establishing CEMA.)

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Figure 1

**SECRET**

## ORGANIZATION OF THE COUNCIL FOR ECONOMIC MUTUAL ASSISTANCE





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Each member country is represented in the meetings of the Council (or Supreme Council, if the above report is correct) by at least 1 delegate and sometimes by 3 or 4 delegates. The delegations appear to be headed by the Chairman of the State Economic Planning Commission, who is aided by one or two of his deputy chairmen. In almost every case the Ministry of Foreign Trade is represented in the delegation by either the Minister or a Deputy Minister. This position seems, however, to be subservient to the Chairman of the State Economic Planning Commission. In some delegations there is a representative of the Economic Section of the Central Committee of the Communist Party. Molotov, Kosygin, Mikoyan, and Saburov have variously been reported as heading the Soviet delegation to CEMA. 5/

The CEMA Secretariat (sometimes called the Executive Committee), located in Moscow, is reported to be staffed by 2,000 "specialists" (presumably professional-class employees), of whom about 70 percent are Russians. 6/ To this Secretariat, each member country sends one permanent delegate who is accompanied by a staff probably composed of clerks and technical advisers. This delegate, according to available information, is either ostensibly assigned to his government's embassy in Moscow or is actually identified as the permanent delegate to CEMA.

The identity and organizational affiliation of the Satellite permanent representation on the CEMA Secretariat is but little known. Identified representatives have generally been associated as high officials in the planning and financial organizations of their states. Thus the Czechoslovak representative in 1950 was Goldman, identified as a former Chief of "Group V" in the State Planning Office, which dealt with long-run economic planning and relations with the Soviet Bloc. 7/ The Polish representative, Rozanski, has been reported as directly responsible to the Chairman of the Polish State Planning Commission. 8/ The organizational connections of the East German representatives -- Georg Henke until early 1952 and Wilhelm Banaschek after that -- have not been identified, although Banaschek held the title of Commercial Adviser in the East German diplomatic representation in Moscow, and held a similar position in Warsaw in 1951. The composition of the present representations to CEMA is not definitely ascertainable. There is, however, some evidence in favor of the assertion that Satellite permanent representatives in Moscow are liaison between CEMA and the Satellite planning commissions, but this evidence is not conclusive. 9/

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The Subordinate Council of CEMA, which is mentioned in only one report, apparently is composed of either the same Satellite delegates as those attending the Supreme Council meetings or their deputies. 10/ No information has been reported concerning delegates to the Technical Council of CEMA.

In East Germany it is reported 11/ that both the State Planning Commission and the Ministry of Foreign and Domestic Trade maintain officials of undisclosed status who are "in charge of CEMA affairs." Apparently these officials work in Berlin rather than in Moscow. Similar officials are presumed to exist in the other Satellites.

Several reports indicate that CEMA has representatives in the capitals of the Satellite countries. One report says that prior to 1 March 1952 seven-man committees dealt with current CEMA matters in each Satellite capital. These committees were composed of one delegate from each of the member countries of CEMA. After 1 March 1952, however, the committees in Warsaw, Bucharest, and Budapest were dissolved, and only the Russian representatives of CEMA remained in these capitals. 12/ Another form of CEMA representation in the Satellites is indicated by a report which states that the Czechoslovak State Planning Bureau maintains a "few" employees attached to the Czechoslovak embassies in various Satellites. This same report indicates that it is unknown whether these offices are "integrated elements" of CEMA, but it is assumed that they carry out the decisions of the Council. 13/

(3) CEMA Meetings.

The CEMA Protocol states that meetings "will be convened whenever it may be necessary" but at least quarterly. It further specifies that the meeting place will be rotated among the capitals of the Soviet Bloc. In February 1952, however, Moscow reportedly decided to end the system of rotation and to hold future CEMA "discussions" in Moscow. 14/

According to available information, the following CEMA meetings, presumably meetings of the CEMA Council, have taken place:

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April 1949 <u>15/</u>	Moscow	All delegates
August 1949 <u>16/</u>	Sofia	All delegates
Late 1949 (2 meetings) <u>17/</u>	Moscow	All delegates
September 1950 <u>18/</u>	Moscow	Czechoslovak delegates
May 1951 <u>19/</u>	Moscow	All delegates
September 1951 <u>20/</u>	Warsaw	All delegates
April 1952 <u>21/</u>	Moscow	All delegates
September 1953 <u>22/</u>	Warsaw	All delegates
March 1954 <u>23/</u>	Moscow	All delegates
September 1954 <u>24/</u>	Moscow	All delegates

Unfortunately there is not enough information concerning CEMA meetings taking place after February 1952 to corroborate the Moscow order terminating the system of rotation. There is, however, sufficient information to indicate that there have been meetings of the CEMA Council and that these meetings were attended by delegates of all the CEMA countries.

(4) Functions.

The functions of CEMA as stated in its Protocol are (a) to coordinate the economies of the signatory countries into a single plan prepared by the Council, (b) to encourage complementary development of the natural resources of members, (c) to improve the materials supply of the member countries, (d) to "exchange experience," (e) to standardize production and quality, (f) to provide stable markets, and (g) to arrange international loans. These functions are so generally worded in the text of the agreement that they can cover anything from pious exchange of good will to the establishment of an over-all economic system, with the authority exercised by planning and administrative organs within the USSR. In fact, the history of Soviet Bloc economic relations (discussed in Section III of this report) indicates that these functions have only in part been fulfilled and that numerous practical difficulties (mainly in the planning process of the individual Satellites) have so far prevented the completion of the integration which was so clearly one of the stated aims of CEMA.

When CEMA was created in 1949, the Protocol establishing the organization was secret. Thus no disclosure was made concerning CEMA's creation. Soviet emphasis apparently was given to

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the coordination of trade within the Bloc. It was not until after late 1949, when Soviet Minister of Foreign Trade, Mikoyan, announced economic planning to be a function of Soviet foreign trade policy, that emphasis in public statements was shifted to over-all planning.

The Protocol states that within CEMA itself the Council, which is composed of delegates from the member countries, has the functions of discussing and analyzing the economic situation of each of the countries, advising on economic plans for the Satellites, approving or disapproving requests for admission to the Council on the proposal of the Secretariat General, and ratifying decisions made by the Secretariat General. The Council has the power to oblige the member countries to make available to the Council all information necessary to "permit and facilitate the task of the observers which the Council may find it necessary to send into any of the signatory countries upon the proposal of the Secretariat General."

CEMA also created a gold fund valued at 100 million rubles (which at the then official rate of exchange of 5.3 rubles = US \$1 was equivalent to about \$19 million). There has been some question as to the purpose of this fund. One report says that the fund is used by the USSR ostensibly for the purchase of strategic materials from the West for the Soviet Bloc; actually the USSR has used it to buy goods only for itself. <sup>25/</sup> Because of the smallness of the fund, its use in buying strategic materials is doubtful. It was probably used simply to finance the operations of CEMA.

As the agreement is worded, it would appear that the Council has the right of final ratification of CEMA decisions, all of which are made by the Secretariat General. This pattern of a strong executive whose actions are periodically approved by a "legislative body" is characteristic of Soviet organizations, and it is very doubtful that the Council can effectively exercise this right of final approval. Also, all the functions and "powers" of the Council are conducted pursuant to proposals initiated by the Secretariat General. The duty of the signatory countries to make information available to the Council and to accept and follow the advice of the Council's recommendations is an obligation to the Secretariat General and not to the Council. The Satellites have the additional duty of sending to the Secretariat General monthly reports concerning their production and other economic and financial information. It seems clear that the guiding force in CEMA is the Secretariat General.

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From information received in some reports, the major function of CEMA appears to be one of controlling and integrating Satellite economic planning and trade. The reports vary, however, as to the method by which this control is exercised and the degree of CEMA control. One report states that in 1950-51 most plans in Poland were drawn up by the Polish state planning organs and that no Soviet personnel were attached to the Ministry of Foreign Trade or the State Planning Commission. 26/ A private Swiss business publication stated that as of March 1952 the "Satellites may no longer change their plans without its (CEMA's) permission." This seems to imply that plans are drawn up by the Satellites, who receive CEMA approval for them, and that once the plans are accepted, they cannot be changed independently of CEMA. The article goes on to say "after 1955 there will be only one single economic plan for the entire East Bloc" (probably under CEMA guidance). 27/

Other reports indicate a greater control by CEMA over the economic planning of the Satellites. They emphasize, however, that CEMA is concerned primarily with long-run planning and not with the daily economic problems of the Satellites. Georg Dertinger, Foreign Affairs Minister in the East German government, said in 1950 that the main function of CEMA was the coordination of the respective 5-year plans of its member states. 28/ Another source states that "economic cooperation among the Satellites takes place actually only on the highest level, i.e., in the respective countries' Communist parties and in the Cominform Council for Economic Mutual Assistance (CEMA)." This source also says that the most important role of CEMA is in the field of "coordination and mutual planning for future industrial development." 29/

In trade matters there are also varying reports as to the functions of CEMA. The foreign trade program of Rumania for 1950 is said to have been submitted to and approved by CEMA, implying that the program was originally prepared by the Rumanian government. 30/ Another source, however, claims that Czechoslovak-Satellite trade is planned according to general directives received from CEMA. 31/ This source states that "all foreign trade plans are worked out in CEMA in Moscow and then handed to the Czech State Planning Commission, which in turn breaks them down and passes them on to the various ministries whose job it is to distribute them to the various factories for foreign trade monopolies. A counter plan, based on submissions of individual plants and foreign trade monopolies is made. This counter plan is

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coordinated with the CEMA plan at the level of the ministries and the State Planning Office." 32/

While the above reports vary regarding CEMA's role in economic planning, they agree that CEMA's main concern is with over-all planning and that it does not become involved in the daily economic problems of the Satellites.\*

In part, differences in these statements may be accounted for by changes in CEMA functions over time. CEMA was founded in 1949, and it is to be expected that some time would be necessary before complex planning activities could be undertaken at all and before satisfactory procedures could be established. Probably 1950 and 1951 marked a period of transition and the initiation of a process of gradual centralization. In the CEMA Protocol the signatory countries bound themselves to accept the "recommendations" and "advice" of the Secretariat. The content of these initial recommendations is probably becoming more and more detailed, and readjustments following completion of plans at lower levels may be getting more frequent.

(5) Status of CEMA - Conclusions.

Information concerning CEMA is extremely sparse. Recent increases in Satellite press references to CEMA activities indicate that it is functioning actively and is assuming an increasingly important role in the economic life of the Satellites, particularly as they approach the period for a coordinated 5-year plan. Despite the general secrecy about its activities, the following minimum conclusions can be drawn from the available data:

(a) CEMA was created in January 1949, its formation was announced, and a number of published statements since that time refer to its existence.

(b) Several meetings of delegations from all the countries of the Soviet Bloc have been reported specifically as CEMA meetings.

\* Certain specific production and trade problems involving intra-Bloc coordination have reportedly been handled by CEMA. In view of other information, however, the validity of these reports is doubtful. It is possible that the Soviet government itself settled these problems by issuing orders in the name of CEMA.

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(c) Several orders and recommendations have been directly ascribed to CEMA.

(d) Only a few top officials in any Satellite country have any direct contact with CEMA discussions and decisions.

(e) CEMA operations are dominated by a permanent secretariat in Moscow.

(f) The Satellites maintain permanent representatives on this secretariat.

In addition to these minimum conclusions, certain other very probable conclusions may be drawn, as follows:

(a) Satellite delegations to meetings of the CEMA Council usually include both the Chairman of the State Planning Commission and the Minister of Foreign Trade. When this is the case, the former is probably the head of the delegation because he outranks the latter in Soviet-type governments.

(b) In the only two cases where definite identification is possible, permanent Satellite representatives of the CEMA Secretariat appear to be connected with Satellite planning commissions.

(c) CEMA functions, therefore, are primarily in the field of economic planning. The coordination of trade agreements could easily take place without active participation of the planning commissions; however, the coordination of economic plans requires the participation of foreign trade specialists.

The chief deficiency in available information pertains to the relation between CEMA and the Soviet government. The Soviet personalities in CEMA activities are almost completely unknown, and it is not possible to determine whether CEMA maintains its liaison with the Soviet government through the Soviet Ministry of Foreign Trade or the State Planning Commission. It is not even possible to determine whether the CEMA Secretariat is an organic part of some Soviet administrative agency "loaned" for this purpose or whether it maintains an organizational identity.

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b. Cooperative Councils and Inter-Satellite Enterprises.

Since the formation of CEMA in 1949, a number of inter-Satellite councils for economic cooperation have been formed. The first of these councils (that between Czechoslovakia and Poland which was founded in 1947) actually antedates CEMA and is said to have been the model for subsequent councils established under CEMA auspices. 33/ It has a rather elaborate formal structure consisting of committees which are supposed to sponsor joint development projects, consultations to exchange information, and efforts to bring about coordinated trade relations with the West by the avoidance of competition and by coordination in the handling of specific commodities. 34/

Joint development projects have in fact been initiated in which Czechoslovak capital goods and technicians were used to develop Polish resources, in some cases on the basis of an exchange of goods outside the trade agreement and in others by credits. In at least one case the Czechoslovaks received payment in the form of shares in a joint corporation, the Dvory hydroelectric plant, which the Poles are gradually buying back by supplying power to Czechoslovakia. 35/

Inter-Satellite agreements to undertake joint projects have been frequent. These include technical assistance, capital goods shipments, and joint planning. Czechoslovakia, the most industrialized country in Eastern Europe, is usually the supplier of capital and technology. In fact, the complaint has been made that the USSR has forced Czechoslovakia to help build consumer goods industries (shoes and automobiles) elsewhere in the Soviet Bloc at the same time that identical Czechoslovak plants were being shut down. 36/

In two cases, joint development projects appear to have taken the form of jointly owned corporations similar to those formed by the USSR in former enemy Satellites. In 1952 a Hungarian-Rumanian corporation called Romagchim was formed to exploit chemical and natural gas resources, and in the same year a similar corporation involving East Germany and Rumania was founded. In other cases, joint ownership on a smaller scale and a more temporary basis (as with the Dvory plant just mentioned) have appeared. These activities are relatively new, and further expansion may be anticipated.

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These joint development projects are not so much a form of spontaneous cooperation as an activity planned in Moscow and implemented through CEMA; specific obligations for both parties are defined in agreements. Other cooperative activities of the inter-Satellite councils in which greater spontaneity is required have not been so successful. Mutual recriminations (by Czechoslovaks and Poles), suspicions, and a lack of effective action toward official goals are reported concerning the Czechoslovak-Polish Subcommissions for Foreign Trade with Capitalistic Countries, for Finance, for Planning, and for Mutual Exchange of Information. <sup>37/</sup> Nationalistic competition and lack of coordinated endeavor in the field of foreign trade, particularly trade with capitalistic countries, is one problem area in which CEMA has been relatively unsuccessful in its attempts to coordinate Satellite activities.

2. Soviet Agencies in the Satellites.

Soviet economic agencies and personnel found within Satellite countries fall into three categories: (a) permanent missions attached to Soviet embassies, (b) ad hoc missions advising on particular problems, and (c) enterprises in the Satellite countries in which the USSR has a partial interest.

a. Soviet Embassies.

The Soviet embassies in Satellite capitals maintain sizable staffs including, in addition to conventional diplomatic functionaries, permanent military missions and economic and commercial missions which serve as the focus for local Soviet-Satellite economic relationships. Satellite representation in Moscow is, by comparison, nominal.

The War Industries and Armaments Sections of the Soviet Military Missions deal with military equipment manufactured for the USSR. Soviet inspectors are present in Satellite factories to assure conformity to Soviet specifications for quality, quantity, and delivery schedules. In Czechoslovakia, where such manufacturing is extensive, Soviet advisers have organized "special sections" producing exclusively for the USSR within Czechoslovak factories. This sometimes leads to extensive Soviet participation in the factory administration, though Czechoslovak officials are left in the top administrative jobs. <sup>38/</sup>

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Soviet Economic and Commercial Missions are concerned primarily with the implementation of Satellite obligations under trade agreements with the USSR. Consequently, they maintain close relationships with the Ministries of Foreign Trade and with appropriate production ministries. Soviet advisers are attached to these ministries at the ministerial and perhaps at the main administrative levels in the capital cities. Soviet personnel have also been reported 39/ at the national enterprise or plant levels, where central offices are dispersed. These individuals, however, are probably not advisers attached to permanent missions but, instead, temporary technical aid groups appearing at the "request" of Satellite authorities, who report to the Soviet Economic and Commercial Missions whatever information they acquire in the course of their work.

It is also possible that economic directives are issued from the Soviet embassy to local Satellite authorities via Communist Party channels.

Permanent Soviet participation in Satellite economic activities other than those in which the USSR has direct financial interests is thus largely indirect. Nevertheless, the contacts are such as to make available to the Soviet missions extensive statistical information of a systematic nature; Soviet missions are sometimes better informed about a plant than the Satellite production ministry to which it is subordinate. 40/ This situation gives rise to a number of statements to the effect that the Soviet trade mission "centrally controls the fulfillment of production plans." This use of the word control may be misleading; in Central Europe the word is used to mean a central audit (as when the Comptroller General "comptrols" expenditures of a US Government agency), though it may also mean to "dominate" or "determine the policy of." While ultimate Soviet domination of Satellite economies is indisputable, there is a question as to whether such domination is effected directly by the Soviet Trade Missions or whether the information assembled by the Missions is used for intervention at a higher level (for example, CEMA intervention through the Satellite Planning Commissions). In any case it is clear that Soviet Trade Missions do include economic reporting functions, and to the extent that Soviet personnel are paid by Satellite ministries, the latter are helping to subsidize intelligence activities of the USSR.

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b. Soviet Advisory Groups.

Soviet intervention in Satellite affairs in the form of advisory groups has been frequent. These may take the form of technical aid teams (described above) which are placed on the payroll of the Satellite enterprises that they "serve" and whose advice must be followed, at least ostensibly, if local managers wish to avoid accusations of hostility to the USSR. Other groups come to advise on problems of collectivization in agriculture or investigate particular crises in production -- for example, the production lag in Hungary in early 1952. Groups of Stakhanovite workers from the USSR have toured the Satellites and described their successes in raising output; it may be supposed that these tours coincide with visits from Soviet industrial engineers describing time-and-motion studies, incentive wage systems, etc. Soviet engineers supervise the installation and instruct in the use of capital equipment purchased from the USSR. Sometimes these contacts take the form of conferences dealing with particular problems, such as railroad transportation.

The adviser program experienced a fairly sharp reversal during the last half of 1954. Noteworthy withdrawals of advisers have occurred in Hungary, in Poland at the Gdansk and Stettin shipyards, and in Czechoslovak agriculture. Most of these withdrawals have occurred in the lower levels of Satellite industry and have been motivated largely by the desire to remove the more obvious signs of Soviet control from the view of the Satellite peoples and to give more credence to the fiction of Satellite independence. It also is possible that Satellite industry may now be approaching a technical efficiency that allows it to operate without strict Soviet control. Despite these reductions in lower level advisory groups, control is still assured by the appointment of high-level advisers directly to industrial ministries in the Satellites.

Economic missions of the advisory type are similar to those dealing with cultural, educational, and military matters and usually are given wide publicity as examples of "brotherly cooperation." It is not clear how much, if anything, the USSR pays for the expenses of these groups. The extent of their influence cannot be easily assessed; certainly they serve to bring about some increases in the "sovietization" of Satellite economic institutions, but the day-to-day regulatory and management functions performed by Satellite personnel determine the effectiveness of the Soviet influence.

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c. Soviet Properties.\*

Soviet property holdings in the Satellite countries were extensive until 1952-53, when most of them were liquidated. They served for several years as an important instrument of Soviet control. Most of these properties were obtained as a result of the war and of the Soviet acquisition of German assets. Acquisition and disposal policies have varied from one Satellite to another.

During the months immediately after occupation by the Red Army, physical seizure and removal to the USSR of industrial and other property was widespread in all Eastern Europe, particularly in East Germany, Poland, and Hungary. Later the USSR, discovering limitations to the value of such seizures and developing more concern with legal sanctions, ceased the practice and worked out methods of utilizing German properties in situ. A small amount of seized property was later returned to the Satellite countries, but it was much less than had been taken away.

Peace treaties were signed in February 1947 between the USSR and those Satellites which had declared war on the USSR: namely, Hungary, Rumania, and Bulgaria (in the case of Bulgaria this had been a purely formal declaration lasting a few days). These treaties provided, in addition to substantial reparations payments, that the Satellite government concerned would waive all claims to German or Italian assets within its borders, except those arising from property rights acquired before 1 September 1939; according to an agreement in the Allied Council on Reparations, enemy property in these areas passed to the USSR. As a result of German economic penetration, largely through banking institutions, the German assets inherited by the USSR included partial or complete control of many of the important companies in most of the key industries in Hungary and Rumania, and to a lesser extent in Bulgaria. German assets were interpreted to include any sort of claim; even minor sums borrowed by a company from a bank in which some German capital had been invested gave the USSR a financial interest in that company, one which could be expanded to a controlling interest.

A large proportion of these assets was contributed by the USSR to joint corporations into which equal values of similar assets were contributed by the Satellite governments. The valuation

\* See Appendix B for discussion of Soviet corporations in Rumania.

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of assets contributed by the two parties was strongly biased in favor of the USSR. Ownership was split 50-50 between the USSR and the Satellites, but the former maintained effective control. These corporations were granted a privileged status exempt from virtually all taxes, including the heavy turnover tax, and from nationalization laws which confiscated the property of all other countries.\* Soviet profits from these enterprises were guaranteed at a defined level, regardless of actual profit. In many industries these joint companies expanded their operations aggressively to acquire a monopoly position where this was lacking. Soviet contributions to such expansion took the form of a "reinvestment" of profits which would otherwise have been paid out.

Soviet assets in Hungary, and to a lesser extent in Rumania and Bulgaria, included partial or complete ownership of scattered enterprises not suitable for incorporation in the type of joint company described above. These remained as Soviet property with privileges similar to those of the joint companies. During 1952, liquidations of Soviet property in Hungary were announced. Sixty-nine enterprises (most of them small) were turned over to the Hungarian government. Only one was part of a joint company. On 6 November 1954 an agreement was signed between Hungary and the USSR in which the USSR sold its shares in the four joint companies to Hungary. These companies controlled Hungary's petroleum, bauxite, aluminum, civil aviation, and river transport industries. 41/

In East Germany the USSR, having engaged in extensive physical removals, obtained ownership of 213 important plants, shipyards, etc. in 1946 in partial payment of reparations. Almost all properties in the area were, of course, former enemy assets.\*\* In February 1947, 74 plants were returned to East German authorities, 23 plants were returned in 1950, and 66 plants were returned in April 1952. Until August 1953 there were no joint Soviet-East German companies, however. The Red Army also maintains properties in East Germany to ensure local sources of supply.

\* For example, the Rumanian nationalization law exempted the assets of any state which was a UN member and which had acquired property through the execution of the peace treaty, a category which included only the USSR.

\*\* Non-German assets are, in theory, preserved. In two cases, joint Soviet-US ownership of East German plants has resulted.

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Soviet properties in 1946 accounted for about one-third of total East German industrial employment and output. This proportion was maintained, with the expansion of retained properties exceeding the value of returned properties, until April 1952, when the proportion dropped to 20 percent. Then in August 1953, following the rioting in East Germany, the USSR announced a series of economic concessions. These included cancellation of East German reparations payments at the end of 1953 and the return of all but one of the Soviet enterprises to East German ownership. The single exception, the Wismut A.G. uranium mining enterprise, was to be turned into a joint Soviet-East German corporation. These transfers were carried out on 1 January 1954. 42/

The USSR has apparently received compensation payments from East Germany for what may be estimated as two-thirds of the value of Soviet enterprises turned over to East Germany before August 1953. The remaining payments for these enterprises were officially cancelled at that time, and no compensation was required for the latest transfers.

Former German territory now under Polish administration supplied property which was removed to the USSR, but no further Soviet claims were made after the area had been turned over to the Polish government. There are no joint companies in Poland; a few large estates with previous German owners are retained by the Red Army to feed its troops.

In Czechoslovakia there were several important plants built by the Germans. The USSR reached an agreement with the Czechoslovak government in July 1945 concerning these properties, using a formula which distinguished the Sudetenland (incorporated into the Third Reich) from the Bohemian and Moravian Protectorate and placed all factories in the former area and those built since 1938 in the latter area in Soviet hands. The Soviet claim apparently was renounced in toto on 30 July 1946, quite probably in exchange for the strategic uranium mines, now owned and operated by the USSR, in which no German capital had been invested. These mines are the only Soviet property in Czechoslovakia now, since no joint companies have been formed.

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In Yugoslavia, two small joint companies were started in the transportation field. They were nationalized after Tito's break with the USSR in 1948. The Yugoslavs have stated that the USSR contributed nothing but the management personnel and received over half of the profits.

The USSR has not formed joint companies in Albania. On the other hand, joint Yugoslav-Albanian concerns were formed; these concerns reverted to Albania after Yugoslavia's break with the USSR in 1948.

When the USSR transfers enterprises to Satellite ownership, it may be assumed that production and expansion plans for these enterprises will continue, as before, in conformity with Soviet wishes, since the USSR is most unlikely to relinquish voluntarily a significant instrument of control. The USSR loses a share in the profits from sales of the products of the enterprises but at the same time avoids the necessity of paying for costs of production. Satellite governments acquire a source of profit and a source of tax revenue, and these should be sufficient to finance compensation payments on easy terms. In the case of Hungary these sources probably are not very large, and Hungarian reparations payments ceased in January 1953. (It has been suggested that Soviet assets may have been exchanged for the Hungarian share of the joint company producing aluminum, making it a 100-percent Soviet enterprise, but this speculation has not been confirmed.) In East Germany, however, total Soviet takings from all sources had been so burdensome as to hinder development in accordance with Soviet aims, at least as of 1954. Future policies cannot be predicted.

Liquidation may have been a means of maintaining Soviet import balances from former enemy Satellites as reparations payments came to an end. Rumanian reparations were due to stop in September 1952, but there was no public announcement of this termination as there was in Hungary, and they may have been extended. Liquidation in Hungary may also have been caused by Soviet disinclination to continue the administration of small scattered interests.

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II. Controls over Balance of Payments Transactions within the Soviet Bloc.

Trade within the Soviet Bloc is carried on under bilateral agreements, which provide for the exchange of specified commodities at fixed ruble prices bearing no necessary relation to internal prices in the trading countries. Trade and certain other current payments included in these agreements must balance during each calendar year. In addition to this balancing trade, certain other transactions, notably reparations payments, the transfer of profits of Satellite corporations partly owned by the USSR, and intergovernmental credits may provide an inequality in the value of goods and services moving in both directions.

By controlling the composition of reparations payments and by directing joint corporations, the USSR has been able to direct the pattern of output in some Satellites. By controlling the composition of trade under bilateral agreements and by dominating the sources of many materials and types of equipment needed by the Satellites, the USSR can exercise an equally important, if less direct, control over others.

Very little is known outside the Bloc concerning the trade and payments relationships among the Bloc countries. This section summarizes the principal conclusions which can be drawn from various Bloc publications as to the manner in which these countries conduct their trade and payments transactions. Although the basic information is much less satisfactory than could be wished, it serves to give some clues as to the practices and procedures of the "second world market system," as Stalin called it.\*

The principal conclusion to be drawn from this analysis is that the basic equilibrating functions of an international market mechanism do not exist in economic relations within the Soviet Bloc. Such a conclusion is in a sense negative, for it states the procedures by which economic relations are conducted without indicating why the volume and direction of trade is what it is and without indicating what relation there is between the international trade and the internal economic activity of a Bloc country. In Section III, an

\* Joseph Stalin, Economic Problems of Socialism in the USSR, Moscow, October 1952.



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attempt is made to explain how the planning mechanisms in the Satellites have been adapted to cope with problems of international trade and, therefore, to give more satisfactory answers to the questions raised here.

A. Trade and Payments.

1. Bilateralism of Trade.

Trade within the Soviet Bloc is typically carried out on the basis of bilateral agreements between Ministries of Foreign Trade. A typical Soviet summary of the provisions of such agreements is the following: CPYRGHT

Trade agreements between the USSR and the people's democracies are based upon the principle of equality in the value of commodity shipments in each direction, an equality observable in 6-month intervals over the life of the (long-term) agreements. Within each half-year period the value of shipments of goods by one party may exceed the value of shipments of goods by the other, but at the end of each half-year period of operations under the trade agreement the trade agreement shipments in each direction must be equal. If at the end of the year either party has not made up its deficit in shipments, it receives a 3-month period in which to do so.\*

This statement clearly implies a bilateral balancing of trade between the USSR and each Satellite. Soviet-Satellite trade occurs within the framework of 5-year agreements, so that annual delivery programs can be fixed by means of protocols to a basic agreement. Among the Satellites conclusion of long-term agreements is becoming more characteristic than annual agreements.

\* A. Korolenko, "Printsipy ravenstva i vzaimnoy vygody v trgovle SSSR evropeyskimi stranami narodnoy demokratii," Voprosy ekonomiki, No. 3, 1952.

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There are only three known cases in which the Bloc countries have entered into multilateral agreements. Poland, Czechoslovakia, and Communist China are members of a series of trilateral agreements with the USSR and Finland and make deliveries to Finland to offset Soviet current deficits with Finland. In no case does there appear to be a trilateral agreement to which all three parties are Bloc members.

Soviet writers sometimes try to give the impression that trade is multilateralized within the Soviet Bloc. The following quotations are characteristic. They can be interpreted either as saying that the Bloc members having transferable sterling accounts settle with one another in sterling or that they settle with countries outside the Bloc in sterling. The latter interpretation seems the more solidly supported by the available evidence.

The Soviet Union and people's democracies are making attempts to expand multilateral clearings. The USSR, Poland, and Czechoslovakia, in addition to participating in several trilateral clearing agreements concluded with Finland, participate in a system of transferable accounts in England, which considerably expand the use of pound sterling in international settlements.\*

Along with the bilateral clearing accounts between the USSR and the people's democracies, a tendency has appeared in recent years to handle accounts on a multilateral basis, which offers substantial advantages to participating countries. These advantages are so evident that even Finland, which is a capitalist country has deemed it advantageous to join in trilateral clearing arrangements; USSR-Poland-Finland and USSR-Czechoslovakia-Finland. The multilateral -- and in particular the trilateral -- agreements make it possible to expand trade turnover between the participating countries.

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\* E. Evreyskov, "Puti ukrepleniya mezhdunarodnykh finansovykh otnosheniy," Voprosy ekonomiki, No. 3, 1952.

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The flourishing of the socialist economy of the USSR and the people's democracies, the ever-strengthening economic ties between them, and the existence of a most stable currency -- the Soviet ruble -- create all the prerequisites for a further expansion of international settlements on a multilateral basis.\*

All these statements actually say is (a) that there exist two tri-lateral agreements, (b) that the Bloc settles some deficits with non-Bloc countries in sterling, and (c) that multilateralism would permit increases in the volume of trade.

Some Soviet writers make a virtue out of the necessity of bilateralism by arguing that only bilaterally balanced trade is equitable, since otherwise one partner receives more imports than the other.\*\* For example:

In trade with all countries, the USSR does not attempt to sell more than is necessary to pay for its purchases and to cover its other foreign expenditures. This [policy] avoids unfavorable consequences connected with disturbances in trade and payments balances, which lead to foreign exchange difficulties and a worsening of the economic position of countries. Thus the readiness of the USSR to purchase in exchange for Soviet goods the same amount of foreign goods which are the usual object of export of the foreign country in question sets up a favorable basis for mutually advantageous trade.\*\*\*

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\* M. Polyakov and V. Trubenkov, "Gosbank i mezhdunarodnyye denezhnyye raschety SSSR," Finansy i kredit SSSR, No. 2, 1952. This article was written prior to the signing of the Finnish-Soviet-Chinese agreement.

\*\* See M. Paromov, "Formy i metody ekonomicheskogo sotrudnichestva SSSR i stran narodnoy demokratii," Voprosy ekonomiki, No. 12, 1950; Korolenko, Voprosy ekonomiki, No. 3, 1952, op. cit.; Yu. Shkarenkov, "Ekonomicheskoye sotrudnichestvo SSSR i stran narodnoy demokratii," Planovoye khozyaystvo, No. 3, 1952.

\*\*\* Vneshnyaya trgovlya, editorial, No. 4, 1952.

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This statement that trade always balances bilaterally, of course, is not true of East-West trade, where the Bloc normally shows a surplus in its trade with the UK and deficits with other sterling countries. It is only technically true even of trade within the Bloc, since there are various capital movements and transfers which are outside of the regular trade agreements and therefore technically are not covered by the statement given above, so that the total movement of goods in each direction between each pair of Bloc countries need not be equal.

2. Nontransferability of Earnings.

Statements concerning this subject indicate that it is in general not possible for one Bloc country to apply earnings in its current payments with a second Bloc country to deficits in its payments with a third. In other words, there seems to be no mechanism for transferability of earnings in intra-Bloc trade.\* The following statement by an East German economist emphasizes the relation between bilateralism in trade and nontransferability of currencies:

Large uncovered claims in the accounts arise chiefly on the basis of an excess of exports over imports and take the form of an active balance (in the clearing account) or in the form of exchange which, however, cannot be transferred to a third country. These uncovered claims are at the same time a credit which is extended to a partner country which has not met its contractual required deliveries. The formation of such claims creates no danger to the relations between countries with a socialist

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\* There may be, however, some transfers of Free World currency among Soviet Bloc members. One source states: "The transfer in rubles of foreign exchange to another contracting party is made at an agreed rate." (Korolenko, op. cit.) The use of "agreed rate" rather than "established rate" probably is not accidental and suggests that such transfers are not necessarily made on the basis of the official cross-rates.

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economy. This was precluded from the start by the fact that deliveries of goods between countries of this type are the result of their economic planning, and short-term temporary (trade imbalances) are quickly compensated by contractual deliveries.\*

Within the bilateral framework, payments appear to present no particular problem. Trade agreements provide for the establishment of central bank accounts in the name of the respective Ministries of Foreign Trade, to which all transactions are charged. Since the Soviet currency appreciation of March 1950 these have been kept in rubles. An enterprise producing for export under some trade agreement uses the same procedure for receiving payment that it would if it were producing for a domestic purchaser. As in transactions within the USSR, payment is completed within 10 days of the receipt of the payments documents and on the basis of the invoices, whether or not the goods have actually been received. Disagreements arising from discrepancies between the actual goods and the invoices are settled by arbitration tribunals. A Soviet source describes the payments procedure as follows:

In commercial relations of the Soviet Union with the countries in the camp of socialism and democracy, the possibility of deception is excluded, for the participants of both sides of the foreign trade transaction are state organizations. Hence the major form of settlements

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\* Alfred Siebeneichen, "Die zwischenstaatliche Verrechnung im Sozialismus," Deutsche Finanzwirtschaft, Berlin, No. 3, 1953.

An apparently contradictory statement by a Bulgarian source states,

"Special accounts opened in the banks of contracting countries to carry out payments for goods turnover and for expense connected with goods turnover are held in rubles ... The contracting parties make transfers in rubles from one currency to another at the established rate." ("A.S.," "Ikonomichesk

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s'trudnichestvo na stranite v lagera na sotsializma," Finansy i kredit, Sofiya, No. 9, 1951.) The contradiction is more apparent than real if "contracting parties" is interpreted to mean "trading partners," with the "transfers" referring to entries in two accounts created under a particular bilateral agreement rather than in all accounts created under bilateral agreements.

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between them is not the letter of credit but the simpler and less complicated inkasso form of payment, which is more in accordance with the character of their relations. Under this form of settlements, the goods delivered under a commercial transaction are consigned directly to the foreign purchaser and upon arrival are immediately transferred to him. The bills, transport and other commercial documents are submitted by the supplier for inkasso to the bank of his country, which sends them off to the bank of the purchaser's country for receipt of payment. The payment must be made by the bank within 10 days of receipt of the documents sent inkasso.\*

The operation of clearing agreements is conditioned by the interest of the participants in maintaining a deficit position and by their interest in obtaining as high prices (in clearing rubles) as possible for their exports or as low prices (in clearing rubles) as possible for their imports.

In clearing agreements it is possible for one of the countries to receive credit. To the extent that this is possible the debtor country is in a favorable position, since it can make payments in goods little needed by the creditor country. In clearing agreements, exchange rates are fixed for the currencies in which members are compensated. When one of the countries (for instance, Facist Germany) succeeds in raising the rate on its currency, it thereby has the economic

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\* M. Polyakov and V. Trubenkov, "Gosbank i mezhdunarodnyye denezhnyye raschety SSSR," Finansy i kredit SSSR, No. 2, 1952. A Bulgarian source states that this form of payment is the usual one in transactions among the Bloc members. P.I. Petkov, "Mezhdunarodnite plashchaniya," Finansy i kredit, Sofiya, No. 3-4, 1951, p. 60. This publication appears with great delay, and this issue did not appear until September 1951. It is not known how long this system has been in effect.

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power to purchase additional goods offered by other countries. Its aim in so doing will be to raise imports in relation to exports, thereby bringing in goods purchased from the contracting country at low prices.\*

Such price and trade manipulations as are implied by this quotation are possible in the Soviet Bloc (a) because of the absence of a uniform Bloc-wide market price for any commodity and (b) because neither prices nor the quantities of goods moving in trade will be affected by the creditor or debtor status of any country.

3. Pricing.

With regard to the prices at which goods are valued in the bilateral clearing accounts, there have been numerous statements of the following sort published since 1950:

Mutual deliveries of goods between the USSR and the people's democracies are carried out on the basis of just prices, which are fixed by mutual agreement; in determining these prices, a single principle is applied to the pricing of goods of both contracting parties, and any inequality of treatment in barter trade is thereby avoided.\*\*

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It is not so easy to find out what the "single principle" may be. A Soviet writer stated in 1953 (a) that all prices are fixed in the agreement and may be altered only after a year or more has elapsed and (b) that each exporting country must charge the same prices to all

\* Petkov, op. cit. The reference to "Fascist Germany" probably is "insurance" by the author so that he will not be accused of imputing evil designs to the USSR, which appreciated East German currency in March 1950. In the Bloc context, "raising the rate on currency" means raising the clearing ruble prices of exports.

\*\* A. Korolenko, Voprosy ekonomiki, No. 3, 1952, op. cit.; M. Paromov, Voprosy ekonomiki, No. 12, 1950, op. cit.; Shkarenkov, Planovoye khozyaystvo, No. 3, 1952, op. cit.; "A.S.," Ikonomicheskoe s'trud-nichestvo na stranite v lagera na sotsializma, Finansy i kredit, Sofiya, No. 9, 1951 (this issue is dated October 1952).

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Bloc countries with which it trades.\* The second part of this statement had not appeared in any previous Bloc publication and may represent a new development in Bloc policy. In other respects there definitely had been unification of trading terms before 1953. In 1951 a standard set of rates for transit rail freight and a standard form for contracts were set up on a Bloc-wide basis.\*\* As regards the price of goods, however, there is no indication of how the "uniform price" charged by each exporter is calculated. Furthermore, there is no indication that all exporters of a particular commodity charge the same price.

To the extent that different countries receive different prices (in clearing rubles) for the same commodity, as was certainly true as recently as 1951, transferability of clearing ruble balances becomes undesirable from the Soviet point of view. Transferability might mean that a country would transfer purchases to those countries where prices (in clearing rubles) were lowest. High-price countries would be unable to sell enough to pay for their imports. Since the USSR, in particular, now takes advantage of its bargaining position to charge high prices for its exports, it might then have to reduce its imports from the Satellites or to sell its exports on terms more favorable to the Satellites, if it is to avoid certain Nazi practices (such as building up credit balances) which it has publicly condemned.

The absence of a corrective market mechanism which would prevent countries from running up indefinitely large surplus or deficit clearing positions is stressed by one of the writers already cited:

Whereas under capitalism there is a clear dependence between the exchange rate and internal prices, under socialism this has been overcome; exchange rates have no influence on internal prices, and internal prices have no effect upon the exchange rate (or parity). The consequence of subordinating the prices of imported goods as well as the prices of exported goods to

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\* I. Dudinskiy, "Ukrepleniye i razvitiye mirovogo demokraticheskogo rynka," Voprosy ekonomiki, No. 6, 1953.

\*\* V. Klochek and K. Viryasov, "Ekonomicheskoye sotrudnichestvo stran lagerya sotsializma," Vneshnyaya trgovlya, No. 2, 1952; N. Cheklin and K. Viryasov, "Torgovo-ekonomicheskkiye dogovory i soglasheniya SSSR s narodno-demokraticheskimi stranami," Vneshnyaya trgovlya, No. 11, 1951.

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economic plans is that the influence of the exchange rate and foreign prices upon internal prices disappears. ... Since socialist money is not a means of international payments and since the exchange rate has no effect on commodity imports and exports or on the level of international prices, the relation between the exchange rate and internal prices is completely broken, and there is therefore no connection between the balance of payments and the value of socialist money. Even if a socialist country were permitted in its plan for foreign trade turnover to accumulate a passive balance of payments which would be settled in gold and foreign exchange reserves; this would have no effect on the value of its own money.\*

These peculiarities of international trade in the absence of any market price mechanism make it necessary to introduce the strict system of swing ceilings and annual quotas described above. Both the absence of transferability and the need for control over balances (to prevent excessive creditor or debtor status) make it easier to operate a rigidly bilateral system than one in which only the over-all trade balance would be controlled. Soviet writers, it is true, claim that since all Bloc trade is calculated in clearing rubles and since the ruble is technically on a gold standard, transferability should be possible.

The question of the relation of Soviet currency to gold has now not only great theoretical interest, but also a practical interest. At present the foreign trade turnover of the Soviet Union, according to data of the customs organs, exceeds 18 billion rubles a year [equivalent to US \$4.5 billion at the official rate of exchange of 4 rubles = US \$1] -- that is, in comparable prices it is more than about [sic] three times the prewar level. The overwhelming bulk of this annually growing trade

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\* Alfred Siebeneichen, "Die zwischenstaatliche Verrechnung im Sozialismus," Deutsche Finanzwirtschaft, Berlin, No. 3, 1953.

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turnover is in trade with countries of the democratic camp. Having a fixed gold content -- the Soviet ruble is an exceedingly reliable means of settling payments among individual states which are members of the camp of socialism.\*

This statement, of course, assumes that the problem of transferability is related solely to the definition of currency units in terms of gold. The problem, however, is not that the unit of account is ambiguously defined in terms of gold but rather that it has represented different amounts of goods, depending on the particular pair of trading countries considered, and that the amount and direction of trade are not in any way connected either to prices or to balances of trade.

Trade within the Soviet Bloc is thus carried on without a market mechanism which can affect the movement of goods in such a way as to bring about balancing of payments. To compensate for the lack of such a mechanism, the Bloc has tended to develop international allocations systems which serve somewhat the same purpose.

Regulation of prices is one of the controls which the USSR can exert over the Satellites, and thus it is able to manipulate the terms of trade in the bilateral agreements. By raising the ruble prices of its exports, it can reduce the amount of goods which it delivers to any Satellite relative to the amount it receives from them. The Satellites are hardly in a position to retaliate. In fact, two of the victims in Satellite "purge trials" (Kostov in Bulgaria and Loebl in Czechoslovakia) were convicted in part because they had attempted to bargain with the USSR on prices in the bilateral agreements.

4. Commodity Trade.

a. Trade Relations of the USSR with the Satellites.

Reports containing information through mid-1951 supplement the published data and emphasize the disparity between the

\* Review of Z.V. Atlas, "Ukrepleniye denezhnykh sistem SSSR i stran narodnoy demokratii," by Gusakov, in Finansy i kredit SSSR, No. 1, 1952. A later article by Atlas ("O nekotorykh voprosakh teorii sovetskikh deneg," in Voprosy ekonomiki, No. 7, 1953) argues along similar lines.

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bargaining position of the USSR and the Satellites. Exports to the USSR from Satellite countries are specified in advance as to quantity, price, quality, and delivery date, as are the Soviet exports for which they are exchanged. These specifications are included in trade agreements after thorough discussion by the Satellite foreign trade monopolies and the Soviet production ministries concerned, so that the Satellite Ministry of Foreign Trade in effect "ratifies a series of agreements already reached" 43/ with its subordinates.

The USSR maintains large trade delegations in the Satellite capitals, while the Satellites have only nominal representation in Moscow. As early as 1946, Czechoslovakia created a "plenipotentiary for trade with the Soviet Union," a position with broad powers, the incumbent having as principal function the expediting of deliveries to the USSR. 44/ Reports indicate the importance of giving priority to trade matters in which the USSR is involved if officials wish to survive in a Satellite Ministry of Foreign Trade 45/ and of special treatment given to Soviet trade as a matter of routine. 46/

"No haggling occurs" in determining Soviet-Satellite trade agreements. 47/ "The Soviet Government decides Rumania's imports and exports" to and from the USSR. 48/ The terms of Soviet-Satellite agreements are spelled out in detail, and the seriousness with which these details must be regarded is shown by the willingness of the USSR to exact heavy fines for late or faulty deliveries. 49/ Apparently the Soviet authorities also arrange for prompt delivery of raw materials from one Satellite to another when these are necessary for the production of goods destined for the USSR. 50/

As to what the Satellites can get in return, one report 51/ indicates that Rumanian trade agreements with the USSR, unlike those with other Bloc nations, are carried out promptly and satisfactorily from Rumania's point of view but that articles which the USSR does not wish to include in the lists simply cannot be obtained. Complaints of the quality of Soviet deliveries to Czechoslovakia are to be found, 52/ but not much is said about failures to deliver.\* It appears that Soviet commitments are carried out in a

\* A report of Soviet failure to deliver cotton under its 1948 agreement with Hungary is mentioned in the New York Times of 2 February 1949.

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fairly reliable manner once their contents have been determined but that in making that determination the Satellites act in a subordinate relationship.

The direction of trade balances of the Satellites with the USSR cannot be measured in the absence of reliable data on the exchange of goods. Intra-Bloc trade agreements usually provide for balanced trade, but such unilaterally determined items as the transfers of profits from Soviet assets in the Satellites to the USSR and provisions for the support of Soviet troops stationed in Satellite areas must all be supplied in goods outside of the "commercial" trade covered by trade agreements. Soviet penalties for faulty deliveries can be imposed with small pretext under the terms of the trade agreements. By these devices, over-all import balances can be obtained by the USSR to the extent that is desirable in Moscow's view.\*

Short-run expropriation, or "milking," however, is not necessarily the most useful method of dealing with Eastern European areas from the Soviet point of view. It could be harmful if these are regarded as permanent assets of the Soviet Bloc or as future Soviet republics. The development of Satellite industry does appear to be a prominent Soviet objective, one which requires exports of capital goods from the USSR. While some of these exports take place within trade agreement lists, others are financed by medium-term credits extended to the underdeveloped countries. Soviet "contributions" to joint companies took the form of "reinvestment of profits," another kind of investment. Such "contributions," plus occasional short-term loans extended by the USSR to meet emergency conditions, might suffice to create export balances for the USSR where reparations payments are minor or nonexistent.

Data on Soviet-Satellite trade balances since 1948 are one of the most closely guarded secrets in Czechoslovakia.\* It is reported that an employee of the Czechoslovak Ministry who attempted to get information on Czechoslovak-Soviet trade was sentenced to life imprisonment. <sup>54/</sup> Total trade data and trade plans for all areas are kept secret (most trade officials are allowed to know only

\* The section of the Czechoslovak Ministry of Foreign Trade which deals with Soviet trade is located in a villa at some distance from the rest of the Ministry and next door to the Soviet trade delegation, with whom they are connected by a special untappable telephone wire. <sup>53/</sup>

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small segments of the data with which they must deal, 55/ and the general picture apparently is known to no more than three people in the Ministry). 56/ Specific data on Soviet trade are subject to particularly elaborate security protection. It is reasonable to suppose that this also occurs in Satellites other than Czechoslovakia. Such secrecy is perhaps the best reason for believing the Satellite export balances with the USSR may be large.

Examination of available Soviet-Satellite trade data from 1945-48 shows that Poland maintained a small but persistent import balance (large in 1946), that Hungary had export balances in 1946-48 (with a small reversal in 1947), that Bulgaria had a consistent and often large import surplus as did Yugoslavia, and that Czechoslovak balances oscillated with small net effect. In most years, imbalances were small in comparison with total trade. The above, however, refers only to commercial exchange. Total commodity exchange for Hungary, Bulgaria, Rumania, and East Germany was dominated by reparations payments to the USSR, which far exceeded commercial trade in the immediate postwar years. These payments have now been reduced or stopped, investment credits extended to the Satellites by the USSR probably have expanded, and no inference from the 1945-48 data is justifiable for later years. In any case, the values of potentially large Soviet profits from joint enterprises have not been published.

Another factor to be considered is the terms of trade, which may be determined arbitrarily by the USSR, since nothing approaching true bargaining takes place, and production costs can be disregarded. The USSR may wish to obtain "real" import balances (that is, an exchange that would produce an import balance if world market prices prevailed) by manipulation of prices and exchange rates, while retaining the appearance of balanced trade. Reports indicate that the Soviet prices are "always automatically the lowest" when buying and highest when selling. 57/ Scattered data for early postwar years indicate that the terms of trade had turned strongly against Bulgaria if prices in its 1945 agreement with the USSR are compared with world prices of 1939, 58/ that prices for Hungarian exports under the reparations agreement with the USSR were one-third to one-half of those available to Hungary in other markets, 59/ and that unit values for selected Czechoslovak exports to the USSR were consistently below those for exports to other areas.\* The USSR has imported Polish coal in large quantities at prices well below those paid in Western Europe.

\* Nicholas Spulber, Economic Relations between the USSR and Eastern Europe (Ph.D. thesis, New School for Social Research, 1951), p. 84.

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Considering reparations, joint companies, and prices, the USSR undoubtedly extracted "real" import balances on a large scale from the Satellites (excluding Czechoslovakia) in the 1945-48 period.

These assertions are, of course, inconsistent with published claims of "just" prices in intra-Bloc trade. More important, they contradict the assertion that each country charges the same price to all Bloc purchasers of its exports. It should be noted, however, that the reports date, in general, from the period before 1952, while the assertion as to price uniformity was published in 1953. It is possible, therefore, that standardization of prices followed the standardization of freight rates and contract terms and that the two sets of statements are valid in the time period to which they apply.

b. Trade Relations among the Satellites.

In inter-Satellite trade (and in East-West trade) the Satellite foreign trade ministries negotiate in their national interest with more freedom from outside control than when dealing with the USSR. It appears that CEMA exercises at least a veto power in the process of coordinating trade agreements within the Bloc and that all agreements made by the Satellites must be approved by their national planning commissions to insure conformity with over-all (Moscow-supervised) long-term plans. 60/ But since agreements which do not involve the USSR are merely promises to issue export and import licenses 61/ for agreed total quantities or value of goods, a considerable leeway remains for negotiating prices and delivery dates and for dealing with inadequate deliveries as these occur.

Centralized planning of intra-Bloc trade has thus been rather general in nature, or, if detailed plans existed, their enforcement was weak outside of trade in which the USSR was involved. This may be changing as central controls become tighter and more explicit.

Precise balancing of payments is not provided by the content of inter-Satellite trade agreements, as is the case in Soviet-Satellite agreements, because the former do not specify prices. Prices, transportation costs, and other charges are negotiated by representatives of foreign trade ministries including agents of the foreign trade monopolies. These negotiations ap-

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parently are not supervised by Moscow, and informants describe them as bitterly contested, lengthy affairs. 62/ Sellers try to "charge what the traffic will bear," 63/ and unreasonable claims are made and argued seriously -- for example, that 1938 prices be used or that Czech Skoda automobiles have the value of an American Buick. 64/ When agreement cannot be reached, differences are taken to CEMA, and decisions are handed down "in accordance with Soviet wishes." 65/ Moscow appears to play a relatively passive role in inter-Satellite affairs when its own direct interests are not involved. 66/\*

Antagonistic relations among the Satellites are also indicated by complaints of one Satellite about the shortcomings of neighboring Satellites in delivering goods under trade agreements. Theoretically all the intra-Bloc agreements are binding commitments, but it seems that obligations to the USSR are the only ones which are reliably implemented. One report estimated that Czechoslovakia was receiving no more than 60 percent of the goods which it was entitled to under inter-Satellite agreements. Rumania and Bulgaria were said to be the worst offenders, but Poland and Hungary were seriously delinquent as well.\*\* Similar complaints are heard from other Satellite countries.

Extensive failures to deliver goods included in trade plans could create serious disruptions of production in industries dependent on raw material or capital goods imports. It is not entirely clear how this kind of problem has been handled.

Administrative decisions on trade are made within the ministries of foreign trade rather than in the production ministries. In Czechoslovakia, decisions on imports are made by section chiefs,

\* An example of dilatory action by CEMA may be cited. After the revaluation of the zloty (in late 1950), Poland refused to alter its shipping and customs charges on Czechoslovak goods exported through Polish ports. The Czechoslovaks took their case to CEMA and got no action for some time until after they stopped using Polish ports altogether in protest. Following this, "direct pressure was brought to bear on Poland by Moscow." 67/

\*\* This percentage figure implies more knowledge of trade data than was likely to have been available to the source of this report; also, the poor harvests of 1950 were affecting Satellite exports at the time. 68/

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while export decisions must be approved at the deputy minister level or above. 69/ (Geographical section chiefs are one echelon below deputy ministers.) It is possible that production ministries may make appeals to higher authorities. The higher administrative level of export decisions, as opposed to import decisions, is indirect confirmation of the existence of shortages, mutual suspicions, and failures to deliver.

Further evidence of a lack of cooperation among the Satellites is provided by instances of competitive behavior in trade within and outside the Soviet Bloc. In the past there has been "a good deal of unfair trade practice in the form of underselling by Czechoslovakia and Poland in the Soviet orbit." 70/ The Czechoslovaks were unsuccessful in stopping Poland from buying hides in Argentina and from underselling Czechoslovak glass in the US after Czechoslovakia had made the first offer, 71/ and Czechoslovakia, Hungary, and Poland were competing with one another to sell cement in Argentina. 72/ These matters have been discussed in the Czechoslovak-Polish cooperative council with no result. 73/ Such cases should not be cited without mentioning that some observers have thought that they detected examples of collaboration among Satellites in trade relations with the West. The latter, however, relate largely to tactics in the negotiation of trade agreements and the procurement of strategic goods. In these activities, one would expect the direction from Moscow to be stronger than in other matters.

Too little is known of the terms of trade in inter-Satellite exchange to permit adequate discussion. Unit values for pre-1948 exports from Czechoslovakia to the Satellites were higher (and more arbitrary) than the same values for Czechoslovak exports to either the USSR or the West. Austrian exporters have consistently obtained higher prices for their industrial goods in Eastern Europe than in the West. These facts point to shortages within the Satellites but do not indicate the results of bargains made between socialist governments in conditions of scarcity. The decline of East-West trade and the increased dependence of one Satellite upon another for supplies should enhance the monopoly position of the larger Satellites. It is possible that increasing output in the Soviet Bloc has reduced scarcities, thus weakening monopolistic powers, and that planned programs of industrialization have led to increased national diversity. They may also have led, however, to increasing interdependence. No estimate is possible other than that

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of arbitrary price relationships with a wide range of possibilities, as might be expected among bilateral monopoly exchanges, with a marked bias in favor of countries having a strong bargaining position within the group. Even this estimate must be advanced with the proviso that as CEMA becomes more active in a regulatory capacity, a tendency toward price uniformity may result.

c. Soviet and Soviet-Approved Middleman Transactions.

There have been numerous reports that the USSR acts as a middleman, at least in reselling exports from the smaller Satellites to the West. In many cases these were re-exports of reparations goods. Less is known about Soviet re-exports within the Soviet Bloc. One individual has stated <sup>74/</sup> that "some transactions between two Satellites are handled by Soviet firms" and cited a 1949 shipment of Albanian salvaged iron purchased by Rumania from the USSR. Prom-syr'yeimport is said to have engaged in such transactions.

The Yugoslav press has claimed that the USSR in 1949 purchased Rumanian oil at world prices (which were below Rumanian costs of production) and resold it to Czechoslovakia and Hungary at Soviet domestic prices (which were above world prices). It also cited the case of Soviet resales of Bulgarian zinc concentrate to Czechoslovakia at prices below Bulgarian export prices. The Yugoslavs have emphasized the importance of Soviet middleman transactions, both as a source of Soviet profits through price manipulations (as in the first case) and as a means of channeling the movement of goods through Soviet sources (as in the second).\*

Satellite re-export transactions are found in imports from outside the Soviet Bloc. The East German trade monopoly, D.I.A., is reported to have acted as purchasing agent for heavy presses imported by China in 1950 and to be a possible middleman in procuring machinery for all Bloc countries in the future. <sup>75/</sup> Another report suggests that CEMA may have given Czechoslovakia the assignment of procuring machine tools in the West. <sup>76/</sup> It is probable that middleman transactions within the Bloc are subject to Moscow's approval, if not entirely monopolized by the USSR.

\* See the New York Times and the New York Herald Tribune of 24 April 1950, quoting a series of articles then appearing in the Belgrade paper Politika.

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The significance of these indirect transactions cannot be assessed in the absence of data indicating their magnitude relative to total trade. Conceivably the USSR could handle a triangular exchange among three Satellites (or more complicated exchange) while maintaining over-all bilateral balances with each Satellite separately. This would provide some of the substantive advantages of multilateral trade and would facilitate bilateral balancing among the Satellites concerned. In this way a strict supervision of trade by Moscow could be maintained, which would be more difficult if the usual multilateral relationships prevailed, and the USSR could also make middleman profits at almost no cost to itself.

5. Bilateral Trade Agreements as an Instrument of Control.

Soviet-Satellite agreements represent a powerful control instrument in that the Satellites must produce what the USSR desires to import. The contents of such trade agreements are determined almost unilaterally by the USSR. Export obligations to the USSR receive high-priority treatment in the Satellites, and the importance of this trade has steadily increased. Industries have been created in the Satellites to meet Soviet needs, and some pre-existing industries are virtually dominated by current production for the USSR. Soviet purchases also furnish a pretext for the presence of large economic missions in the Soviet embassies and for the presence of Soviet advisers and inspectors in Satellite industry with functions which include the collection of economic data and the exertion of varying degrees of influence on production processes.

In addition to these obvious control aspects, more subtle controls are involved in the trading system which has evolved. The basic principles of trade between the Satellites and the USSR are indicated in the following quotations which stress (a) bilateral balancing, (b) Satellite dependence upon Soviet raw materials exports, (c) integration of trading agreements with long-run plans, and (d) rigid scheduling of deliveries under the clearing agreements:

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[Trade between the USSR and the Satellites] ...  
is based upon an equality of shipments in each direction. The Soviet Union ships to people's democracies mainly industrial equipment and raw

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CPYRGHT

materials necessary to fulfill economic plans and to carry out the industrialization of these countries.\*

The volume of foreign trade turnover and the ever-increasing output of material goods in the countries of democracy and socialism are closely connected. Developing at a rapid tempo, the economy of these countries shows increasing demands for raw materials and equipment produced either inside the given country or abroad; at the same time the possibility for the export of goods produced within the country increases.\*\*

Agreements on mutual deliveries of commodities determine the amounts of the basic articles which are to be shipped in the course of 4 to 5 years, and long-term agreements as a rule determine the shipment of industrial equipment, including the deliveries of entire factories.\*\*\*

The fulfillment of conditions on the assortment of goods, their volume and delivery dates, as well as all other points in the trade agreements, are firmly guaranteed by the agreements concluded among the governments. An important means of strengthening the planned character of trade turnover among the countries of the socialist camp is the condition of equality of payments in each direction, which assures the observance of delivery dates by each party, and other forms of economic mutual aid. Firm obligations in foreign trade agreements and their undeviating fulfillment within precisely determined periods can be undertaken and carried out only by governments with planned economies.\*\*\*\*

\* N. Ivanov, "Razvitiye ekonomiki i vneshney trgovli stran narodnoy demokratii," Vneshnyaya trgovlya, No. 10, 1949.

\*\* V. Klochek and K. Viryasov, "Ekonomicheskoye sotrudnichestvo stran lagerya sotsializma," Vneshnyaya trgovlya, No. 2, 1952.

\*\*\* Ibid.

\*\*\*\* Paromov, op. cit.

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Several Soviet statements exist to the effect that the USSR ships mainly raw materials and capital goods to the Satellites, receiving in exchange mainly finished goods other than capital goods. The following interpretation could therefore be made of these statements: (a) the Satellites are dependent upon the USSR for a number of raw materials (including such things as cotton, wool, iron ore, manganese, chrome, and fertilizers), and the greater their own output, the greater their imports must be, and (b) if the USSR falls behind in its deliveries for some reason, output in the Satellites must drop below plan or may even decline. A drop in output will affect Satellite shipments to the USSR and may act automatically in such a way as to prevent the Satellites from building up credit balances in the USSR. The USSR, therefore, by cutting down its deliveries to the Satellites, can restrict their output in particular lines without building up a substantial payments deficit and without causing Soviet output to suffer.

Should a Satellite fall behind in its deliveries, the USSR can use the threat of suspending shipments of raw materials as a practical means of forcing compliance. Since the Satellites have small reserves of Free World exchange and since their own raw materials supplies are in many ways limited, a failure of the USSR to make deliveries of materials might mean a nonfulfillment of domestic output plans. Since such a failure is an important political matter, foreign trade as well as domestic planning authorities will endeavor to meet their delivery quotas in order to make possible the continuation of output at home.

This schematization unquestionably oversimplifies the control which the USSR can exercise over the Satellites by varying the over-all volume of barter trade and delivery rates. Yugoslav experience since 1950, however, may be suggestive. Yugoslavia imports many of the same materials that the Satellites import, and the size of the foreign aid pipeline and current deliveries have been the source of considerable concern to the Yugoslavs. Even relatively small changes in the rate of aid shipments can have an effect upon Yugoslav industrial output. Since several Satellites are in a stage of development similar to that of Yugoslavia, they may be affected in a like manner by changes in the rate of their imports.

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B. Service Transactions.

Trade transactions probably make up a larger portion of the total balance of payments within the Soviet Bloc than they do in the case of other trading countries. There are, however, various service payments and capital transactions which enter into the balance of payments of Soviet Bloc countries.\* The remainder of this section will summarize the information available concerning non-trade transactions.

During 1948 the entire Soviet Bloc negotiated a series of bilateral agreements on what the Bloc press calls "technical aid" and "technical collaboration," which include most of the service items in the intra-Bloc balance of payments. These include the establishment of joint chambers of commerce, the organization of trade fairs, the exchange of technical experience, and technical aid.\*\*

Joint chambers of commerce exist in a number of instances. Since there has been a steady merging of foreign trade and economic planning functions in the Satellites, the chambers of commerce probably have only a minor role in promoting intra-Bloc trade. Their functions presumably are propagandistic. Trade fairs are held periodically in the various Bloc countries. It is difficult to assess their importance. Since the available evidence indicates that Bloc security regulations make foreign travel as difficult for Bloc citizens as for Free World officials, trade fairs may actually serve a useful function in acquainting the technical personnel with types of industrial equipment produced elsewhere in the Bloc and may compensate, to some degree, for the limited amount of contact among technical personnel in the various countries.

"Exchange of scientific and technical experience" is achieved, in principle, on a bilateral basis. The treaties signed in 1948 between each pair of Satellite countries called for the establishment of joint commissions, consisting of five members on each side. These

\* See Appendix C, Some Aspects of Rumania's External Accounts with the USSR, 1945-51.

\*\* See, for example, A. Korolenko, "Ekonomicheskoye sotrudnichestvo SSSR i stran narodnoy demokratii," Vneshnyaya trgovlya, No. 9, 1949, and "Ukrepleniye ekonomicheskikh otnosheniy mezhdru SSSR i stranami narodnoy demokratii," Vneshnyaya trgovlya, No. 5, 1950.

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commissions were to meet twice yearly in the respective capitals, in alternation, to make recommendations to the respective governments on the exchange of information. The treaties were in general for a period of 5 years and were renewable without further negotiations.\*

The terms of reference of the commissions make it clear that at best these are advisory bodies, which can perhaps outline the subject matter on which exchange could take place but which probably do not actually distribute material themselves or have any active function of providing a channel for working-level contracts. It appears that only a few of the commissions have actually been activated, probably because other channels have been more effective.

"Mutual scientific and technical aid," in contrast to the foregoing programs, appears to be the main vehicle for handling services among Bloc members. The principal features of this program relate to (1) loans of skilled personnel; (2) training programs, including sending of students abroad; and (3) licensing of patents. These features of Bloc economic relations appear to have been developed largely since mid-1950. Soviet literature before that date did not spell out this type of aid in any detail, whereas in 1952 considerably more detail was given.\*\*

Loans of skilled personnel appear to amount in practice mainly to the sending of Soviet technical missions to the Satellites. Published examples include missions for exploration and exploitation of natural resources,\*\*\* the "exchange of productive experience and advanced labor methods," and the design of plants and the installation

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\* A. Korolenko, "Printsipy ravenstva i vzaimnoy vygody v trgovle SSSR evropeyskimi stranami narodnoy demokratii," Voprosy ekonomiki, No. 3, 1952.

\*\* Compare the types of "economic collaboration" listed by Korolenko in his 1949 and 1950 articles cited above with those listed by Shkarenkov, "Ekonomicheskoye sotrudnichestvo SSSR i stran narodnoy demokratii," Planovoye khozyaystvo, No. 3, 1952.

\*\*\* From the context of these reports, it could be concluded that these missions took place mainly in connection with the Soviet-Chinese treaty of 1950, which called for the establishment of joint corporations for developing Chinese petroleum and ferrous metals resources. The uranium deposits in East Germany, Czechoslovakia, and Bulgaria, however, may well fall into this category of project.

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or operation of new equipment.\* In addition, Soviet experts in military, security, and administrative problems are attached to the Satellites.

A Soviet source\*\* states that thousands of Satellite students are enrolled in Soviet educational institutions. Inter-Satellite student exchange appears to be of much less importance. One reason for this situation appears to be the existence of rigid security controls in the individual Bloc countries.

It is not clear how the financial aspects of these various "service" transactions operate. A Bulgarian source indicates that diplomatic, trade, and military missions as well as students studying abroad are supported by the country of origin and that funds are transferred by means of payment orders in a procedure differing from that in commodity transactions.\*\*\* These missions seem to be the permanent representation of the various countries rather than the special missions in the "mutual aid" programs. A Soviet source speaks of contracts dealing with "mutual aid" in the same context as trade contracts.\*\*\*\* One of the contributing factors in the Soviet-Yugoslav disputes prior to 1948 was the Yugoslav assertion that Yugoslavia could not afford to maintain at its own expense a Soviet technical military mission, especially since the salaries of Soviet officers far exceeded those of their Yugoslav counterparts. The Yugoslavs have published numerous claims to the effect that Soviet personnel abroad were paid by the Satellites at rates equivalent to those prevailing in the USSR and far in excess of those in the Satellites. Although Soviet published sources say that the USSR "sends" technical missions "at the request of" the Satellites,\*\*\*\*\* they have not claimed that the USSR pays for the expenses of the missions. In contrast, Soviet publications speak of the transfer "without compensation" of licenses, blueprints, and

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\* Albania, Rumania, and Bulgaria, in particular, as the least developed of the Satellites, appear to have the most extensive staffs of Soviet engineering personnel in their plants.

\*\* Shkarenkov, op. cit.

\*\*\* P.I. Petkov, "Mezhdunarodnite plashchaniya," Finansy i kredit, Sofiya, No. 3-4, 1951.

\*\*\*\* N. Cheklin and A. Korolenko, "Torgovo-ekonomicheskiye dogovory i soglasheniya SSSR s narodno-demokraticheskimi stranami," Vneshnyaya trgovlya, No. 11, 1951.

\*\*\*\*\* See, for example, M. Paromov, "Formy i metody ekonomicheskogo sotrudnichestva SSSR i stran narodnoy demokratii," Voprosy ekonomiki, No. 12, 1950.

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technical documentations to the Satellites.\* Since the Soviet government would have to pay the salaries of specialists but would not have to pay royalties or license fees within the USSR, it presumably would seek to have the Satellites pay the expenses of missions but would not have any direct reason of the same kind to obtain royalties or license fees for processes used abroad. To the extent that the more developed Satellites, such as Czechoslovakia, have retained patent protection of inventors, this procedure might work to their disadvantage.

The benefits which the Satellites gain from the hiring of such Soviet "services" probably varies from country to country and also according to the type of service in question.

At one extreme, Soviet industry is undoubtedly more advanced than that of Albania, and Soviet engineers can therefore make a contribution to Albanian economic development. At the other extreme, it is doubtful whether Czechoslovak or East German industry greatly benefits from the application of Soviet engineering methods. Likewise, considering administrative rather than engineering services, Albania or Bulgaria might benefit from the use of relatively developed Soviet accounting and statistical services, while the advice which the USSR might give to a Satellite government wishing to increase the efficiency of its police force might be considered less of a social blessing.

C. Capital Movements and Transfers.

Capital movements and transfers within the Soviet Bloc arise in connection with reparations, with the operations of Soviet economic interests in the Satellites, and with international loans.

1. Reparations.

Reparations have been paid the USSR by East Germany, Rumania, and Hungary under the terms of the armistice and peace treaties. Hungarian reparations were completed in January 1953, and East German reparations ended in 1953. No announcement has been made concerning the end of Rumanian reparations (which were to have been completed, under the terms of the peace treaty of 1947, at the end of 1952), but it is likely that they probably will be completed

\* Korolenko, 1952 article cited above. See also V. Goryunov, "Mazhdunarodnyye ekonomicheskiye svyazi Kitayskoy Narodnoy Respubliki," Vneshnyaya trgovlya, No. 3, 1952.



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in the next year or so. Under somewhat similar conditions, Poland and Bulgaria have been paying the USSR from current output to compensate the USSR for its claims on former German assets located within the territories of these countries.

Reparations payments are made in kind and are credited to special accounts. They amount to a planned export surplus by the paying country. During the postwar period the USSR at various times either has reduced total outstanding reparations obligations or has permitted changes in scheduled payments. Of these instances, the most notable was the termination of East German reparations announced in August 1953. Such changes presumably would affect the size of the export surplus of the particular Satellite with the USSR and therefore would affect the internal balance of the Satellite economy.

The terms of the reparations clauses in the peace treaties are similar to those in ordinary Bloc trade, in that the reparations are valued at a set of prices differing from the internal prices in existence either in the USSR or in the Satellite. The peace treaties provided for payments equal to stipulated values of goods in 1938 US dollar prices, subject to various corrective factors which are presumably the object of Soviet manipulation. The "1938 dollar" of the peace treaties may be considered as an equivalent to the clearing ruble in bilateral trade agreements, and it is probable that after rubles came to be used as the clearing unit of account, the reparations accounts were similarly revalued.

The reparations accounts provide the USSR with an important means of controlling Satellite economies, since the USSR can control their commodity composition as well as the clearing unit prices at which they are valued. In this way it can influence the channels of development of the individual countries. Finland, although not a Bloc country, is an example of the consequences of Soviet control in this respect, since the Finns have developed a large machinery industry in the postwar period solely for the purpose of meeting Soviet reparations obligations. Since this industry is not competitive in world markets, it can exist only on the basis of Soviet orders. The rapid postwar development of the Czechoslovak and East German machinery industries probably are analogous to the Finnish case.

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2. Soviet Properties in the Satellites.

Soviet properties in the Satellites have consisted of corporations, some owned solely by the USSR and some jointly by the USSR and Satellite governments. They consisted originally of German assets in Hungary, Rumania, and Bulgaria which the USSR claimed under the armistice and peace terms. These corporations have in fact been dominated by the USSR, for although their boards consist of equal numbers of Soviet and Satellite citizens, the general manager, who makes all operational decisions, is a Soviet citizen.\* In East Germany the 132 so-called "SAG" corporations, set up by the USSR in 1947, differed from the joint corporations in that they were entirely Soviet property, but their functions were basically similar to the joint corporations.

During 1954, most of the joint-stock companies were liquidated. In Rumania it was announced that the joint-stock companies had been liquidated and the Soviet shares sold to Rumania. 77/ Conspicuously absent from the announcement, however, was the disposition of the two most important Sovroms -- Sovrompetrol and Sovromquartzite -- controlling the strategically important petroleum and uranium-mining industries.

On 12 October 1954, Moscow announced the transfer to Bulgaria of Soviet shares in the joint-stock companies in that country. 78/ In Bulgaria, three important companies were liquidated, but, as in the case of Rumania, there was no mention of one important company, the Soviet-Bulgarian Uranium Mining Company.

The dissolution of the Hungarian joint-stock companies 79/ is apparently complete. The four companies that controlled the major industries in Hungary were reported as having been liquidated.

The liquidation of the joint corporations appears to be designed to eliminate the overt forms of control in the Satellite economies and to lessen the tensions between the general population and the Communist regimes.

Soviet property has been serving as an important instrument of control. First, joint corporations made their own output

\* See, for example, Howard J. Hilton, Jr., "Hungary: A Case Study of Soviet Economic Imperialism," State Department Bulletin, 27 August 1951.

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plans in large part independently of the Satellite planning authorities. This means that the USSR could determine directly the output of a considerable part of the industry of the Satellites in which the corporations functioned. In Rumania the joint corporations dominated the oil and uranium-mining industries. Before liquidation of the majority of the joint-stock companies the USSR controlled most of Rumanian heavy industry. In Hungary the oil, aluminum, coal, metallurgy, and machinery industries were dominated in varying degrees by joint corporations.

Control over the output of joint corporations could have affected the balance of trade of the Satellite. To the extent that the corporations planned the allocation of their output independently of the Satellite planning commissions (the extent to which they were subordinate to them is not clear), they forced the commissions to adjust the rest of the Satellite economy to the activities of the corporations. Thus if Sovrompetrol had increased its petroleum export plan, it could have forced the Rumanian planners to lower domestic petroleum consumption, and it also could have reduced other exports or raised imports (depending on how the Sovrompetrol increased petroleum export plan was coordinated with other commitments in the bilateral trade agreements).

Second, the disposition of the profits of the joint corporations provided a two-way control over investment programs. If the corporations retained their profits and invested them in new plant capacity, half of this total was a Satellite contribution. The USSR thus could have committed Satellite funds for investment purposes, just as it could have controlled directly the current operations of the corporations. By making a decision as to the degree of retention of the profits of joint corporations, the USSR could have influenced the level of construction within the Satellites and the balance of trade of the Satellites.

The activities of the joint corporations thus affected both the internal and international aspects of the Satellite economies. They affected the internal economies by determining the level of production and investment in particular important Satellite industries (and the level of resources available to other industries). They affected the balance of payments of the Satellites both by the exports they themselves made available and by the size of profits which were transferred to the USSR.

3. Credit Transactions.

Short-term commercial credit within the Soviet Bloc consists only in the permission to accumulate clearing deficits within limits: that is, the swing margins specified in trade agreements.

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A form of credit intermediate between short-term commercial credit and investment is the emergency loan. Such loans have been granted occasionally to Satellite countries by the USSR to tide them over temporary balance of payments' difficulties. The USSR's \$25 million loan to Czechoslovakia in 1950\* is an example, in this case designed to keep Czechoslovak industries operating by financing raw material imports from Western countries to which the Czechoslovaks were currently unable to make payments. Another example was the Soviet export of 500,000 tons of grain on credit to Poland in late 1947 and early 1948, repayment in specified commodities being required in 1949. 81/ The flow of goods associated with these loans and their repayment takes place outside of the regular trade agreements and is handled in separate accounts. It is not known whether Satellites extend similar emergency loans to one another.

More numerous and of greater importance are the Soviet loans for investment purposes. These loans are of various sizes and maturities; capital goods exports from the USSR and imports for repayment are specified in agreements and handled in separate accounts. Repayment is frequently made from the output of industrial installations which were equipped with machinery provided through such loans. One of the largest of these was a credit of US \$450 million to Poland for capital equipment to be delivered from 1948 to 1956, with repayment at 3 percent interest scheduled in installments lasting until 1961. This equipment included a US \$200 million steel mill (which nearly doubled Poland's steel capacity); oil-drilling equipment; and auto and truck assembly plant; and chemical plants for making soda and acids, carbides, and nitrate fertilizer. 82/

Another form of "investment" by the USSR in Satellite countries, one which has a quite different effect upon the balance of payments, is the jointly owned corporation. Initial Soviet contributions of former German assets to these corporations did not enter into the international flow of payments, but the flow of profits to the USSR has and, like all such flows within the Soviet orbit, it has its counterpart in products exported to the USSR under separate accounts. Soviet contributions to expansion of these joint enterprises, once established, have been achieved by a "reinvestment of profits" -- that is, by a decrease in Soviet imports or an increase in Soviet exports compared with levels which would otherwise have prevailed. Liquidation of Soviet shares in these corporations has also taken place, presumably for some sort of compensation and by the export of

\* It was reported that the USSR was a "nervous lender" and required detailed weekly reports on the use of the loan funds. 80/

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products from the Satellite to the USSR or by a decrease in the Satellite's imports. Thus the effect of the joint corporations has been to create a series of debits in the international accounts of the Satellites concerned corresponding to profits accruing to the USSR; the debits are temporarily reduced when the USSR expands its investment and are increased when Soviet disinvestment occurs.

Investment flows from one Satellite to another are a more recent phenomenon, one which has been guided by the bilateral councils for cooperation described above. Capital goods exports from the more industrialized Satellites may be part of the regular trade agreements, may be accomplished by special credit agreements, or may take the form of contributions to jointly owned corporations. While the power of an investing Satellite to control the activities of the recipient of its capital is far less than that of the USSR when it is an investor, the institutional forms and the effects on international payments are the same in both cases.

All of the capital transactions discussed so far are arranged by formal agreements in which a flow of goods corresponding to an extension of credit is specified. A similar type of agreement is that in which credit arrangements corresponding to a flow of services are established. One such agreement has been reported which arranges for a transfer of clearing credits from the Albanian National Bank to the East German National Bank and thence to the Polish National Bank in payment for Polish shipping services in transporting East German goods to Albania. <sup>83/</sup> Other agreements of this type must exist where such payment arrangements are called for.

D. Gold and Foreign Exchange Transactions.

1. Settlement of Current Trade Balances.

Most intra-Bloc trade is conducted through bilateral clearing accounts established reciprocally in the Central Bank to handle payments to and from the enterprises engaging in the trade. Trade agreements are drawn up with what are intended as equal values of goods to be exchanged, and clearing deficits must be settled by commodity exports within short time periods, usually 3 months. In the early postwar years, some agreements permitted settlement of clearing deficits in US dollars, Swiss francs, or gold. Actual payments are believed to have been of minor importance, and these provisions were

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omitted from later agreements. The Soviet-Rumanian agreement of 1949 provided that the balance, at the end of each year, was to be settled in gold or foreign exchange.\* It is not clear whether in fact such settlements have regularly taken place,\*\* but it is clear that since none of the Satellites is known to have extensive gold reserves, it might well be difficult or impossible for them to make any extensive shipments of this kind.

The discussion of commodity trade has indicated that trade between each pair of Bloc members is supposed to balance at 6-month intervals. A typical statement on this subject is as follows:

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During each half year the value of shipments of goods by one party may exceed the value of shipments of goods by the other, but at the end of each half-year period of operations ... the shipments in either direction must balance. If at the end of the year either party has not made up its deficit in these shipments, it receives a 3-month period in which to do so.\*\*\*

As mentioned above, the USSR has, on a number of occasions, extended relatively short-term loans, of which the loans to Poland issued in connection with the crop failure of 1947 may be typical. Such a loan would amount, in effect, to an extension of time over which the deficit country could make up its balance in the bilateral clearing account. The question remains as to how unbalanced accounts are settled when such an arrangement is not made.

A possible method of settling bilateral clearing balances is the simple cancellation of offsetting balances. If, for example, Country A is running a surplus with Country B, and a deficit with Country C, it could, in principle, transfer the surplus in one account to offset the deficit in the other. Such a transaction is

\* See Appendix C, Some Aspects of Rumania's External Accounts with the USSR, 1945-51.

\*\* A Bulgarian source (Petkov, op. cit.) says that settlements are "ordinarily" in gold. No other mention of such gold settlements has been found.

\*\*\* See Korolenko's 1952 article cited above. See also "A.S.," "Ikonomicheskoe s'trudnichestvo na stranite v lagera na sotsializma," Finansy i kredit, Sofiya, No. 9, 1951 (dated October 1952), and the text of Articles 6 and 10 of the Soviet-Rumanian trade and payments agreement of 1949, published in Vneshnyaya trgovlya, No. 3, 1949.

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carried out automatically, for example, in clearings arrangements such as the European Payments Union, and it is conceivable that it could be arranged in the Soviet Bloc. It is not known whether in fact any such arrangement exists, but certain indications are available from published sources.

A prerequisite of any such system of multilateral clearings would be either that all clearings accounts were kept in a single unit of account and all prices computed on a fairly uniform basis or that, if several units of account were used, they involved fairly similar methods of pricing. If this were not so, it would be necessary to treat each bilateral account as if it were in a currency different from all others and to compute implicit exchange rates on units of account in trade between each pair of accounts.\* In fact, prior to 1 March 1950, accounts seem to have been kept in rubles, in "US dollars at 1938 world prices" (a fictitious bookkeeping unit), in Czechoslovak crowns, and possibly other units of account. When the ruble was appreciated from a rate of 5.30 to 4.00 to the dollar, it was announced that all accounts in Bloc trade were being shifted to a ruble basis. Since that time there have been repeated published indications of a movement toward uniformity in prices of goods traded by the USSR (which account for most trade within the Bloc). To the extent that uniformity of prices does exist, there exists also a prerequisite for a transfer of clearing-account rubles from one account to another. There is direct indication of Soviet interest in the theoretical possibility of making such transfers.\*\* There is only one published indication that the Bloc countries do transfer such clearings balances -- a Bulgarian statement, as follows:

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Special accounts opened in the banks of contracting countries to carry out payments for goods turnover and for expenses connected with goods turnover are held in rubles . . . . The contracting parties make transfers in rubles from one currency to another at the established rate.\*\*\*

\* This assertion does not mean that prices in the Bloc trade bear any particular relations to market values or that prices are not rigged in favor of the USSR against the Satellites. It simply implies that there is some uniformity in the prices (or price structures) at which transactions take place, within a system designed to benefit particular countries of the Soviet Bloc.

\*\* See quotation, p. 39-40, above.

\*\*\* Article by "A.S.," cited above, p. 60.

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In addition, an agreement signed in December 1951, which executes a trilateral clearing of accumulated bilateral deficits has been reported 84/; clearing credits of 16 million rubles were transferred from East Germany to Czechoslovakia, from Czechoslovakia to Hungary, and from Hungary to East Germany. This agreement was entered into to correct an abnormal situation and was not planned in advance with trilateral trade in mind. There is no way of knowing with certainty how frequently such arrangements may be used, but the absence of reports on any others than the above is probably a good reason for believing that they are unusual.

One document has been obtained which purports to describe transfers of clearing credits among Bloc countries arranged by CEMA 85/ in 1949 and early 1950. The impression created by it is that such transfers, while not large, are accomplished fairly freely, and since CEMA was relatively new at the period described, these capital movements may have increased by now. This impression is at variance with the usual rigid picture of international relationships conveyed by most of the material available, its implications are complex, and the document is difficult to evaluate.

It is possible that transfers of clearing credits between Satellites may occur which are accomplished by central bank representatives dealing with each other on an ad hoc basis without formal agreements. There has been no report of this, and it is unlikely that the central banks would be given the authority to engage in such transactions. Satellite national banks are subordinate to the ministries of finance, which in turn are on the same echelon with ministries of foreign trade (cabinet rank). The ministries of foreign trade have the authority to make administrative decisions in the area of foreign trade, and available evidence indicates that in practice their relation to the central banks is one in which the latter play a largely passive role.

2. Transfer of Free World Currencies.

Bloc members could also settle obligations arising under bilateral agreements by transfer of Free World exchange held by the debtor country. This is done in the case of the trilateral arrangements involving Finland, and since the principal trading members of the Soviet Bloc have transferable sterling accounts, they could use this means of transferring funds. The only general statement of

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practices in this connection is given in the ambiguous statement that "the transfer in rubles or foreign exchange to another contracting party is made at an agreed rate."\* It is interesting, and probably not accidental, that the expression "an agreed rate" (soglasovanny kurs) was used, rather than the expression "established rate" used in the Bulgarian citation just given, and in most Soviet statements on exchange rates (in Russian, ustanovlennyy kurs). It may therefore be tentatively concluded that there are sometimes transfers of Free World exchange from one Bloc member to another and that these transfers do not necessarily take place at official exchange rates.

3. Gold and Foreign Exchange Pool.

According to the purported text of the January 1949 agreement setting up CEMA, a fund of 100 million rubles (about US \$19 million at the 1949 official exchange rate of 5.3 rubles = US \$1) was set up, to be at the disposition of the CEMA Secretariat. This fund was to be in gold, rubles, or convertible exchange; the USSR was to contribute half of the total, and the other signatories were to contribute 10 million rubles (about US \$1.9 million) worth each.

It is not stated in the protocol for what purposes this fund was to be used. It would appear likely, however, that it could be used either for purchases from the Free World or for the operating expenses of CEMA. It does not appear likely that the fund was designed for any major purchasing program, since its size (about US \$19 million at the 1949 exchange rate, assuming all contributions to have been in gold or convertible exchange) is very small in terms of trade operations. There have also been no indications of further contributions to this fund, and it is doubtful that it can have had any very great importance in trading operations. It may, therefore, have been designed to cover the administrative costs of the agency.

One report 86/ indicates that a gold pool was set up within CEMA to finance purchases of strategic materials but that the USSR had used the gold to finance its own purchases and that the Satellites had found it difficult to obtain their share of the resources of the fund. Another report 87/ doubts that CEMA controls Satellite gold and foreign exchange. In general, the subject of possible gold and exchange pools is treated very unsatisfactorily in

\* Korolenko 1952 article cited above, p. 52.

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available sources. A gold pool under Bloc conditions would be relatively useless, however, unless the Bloc were regularly exporting gold on a large scale. Gold exports on a scale large enough to affect world gold markets did not take place during the period under study. Given restrictions on Free World exports to the Bloc over this period, the Bloc was probably not about to import enough to require large gold exports in payment.

As regards convertible exchange, it appears to be true (a) that the individual Bloc countries hold foreign exchange in their own names, (b) that they transfer this exchange among themselves, and (c) that some form of coordination of such holdings exists, although it is probably exercised through control over the planning of trade within the Bloc rather than direct control of the exchange itself. Thus the USSR controls Rumanian foreign exchange holdings, for example, by controlling allocations of Rumanian grain and oil into East-West trade rather than by direct acquisition of foreign exchange earned by Rumania. It can control Rumanian grain and oil shipments through its control over Rumanian planning and allocations and especially by its control over Soviet-Rumanian bilateral trading arrangements.

The Soviet Bloc has over-all controls over intra-Bloc trade which in effect make possible Soviet control over the trade which the Satellites carry on with the Free World. Such control in effect determines the foreign exchange earnings of the Satellites and the uses to which these earnings may be put. Under such conditions a formal pool of gold and foreign exchange would appear to serve no purposes which could not be achieved by the other controls exercised within the Bloc.

III. Economic Integration of the Soviet Bloc.

A. Integration Process, 1948-54.

1. Concept of Integration.

Since the establishment of the Council for Economic Mutual Assistance (CEMA) in January 1949, the countries of the Soviet Bloc have developed methods of controlling the movement of goods in international and domestic transactions. Central planning, coordinating the various national plans, may be assumed to occur either in CEMA itself or in an appropriate Soviet institution which uses CEMA as a channel for transmission of directives to other national planning

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agencies. These institutions, judging from reports published within the Soviet Bloc, function with considerable inefficiency. They appear, nevertheless, to constitute an international system operating on the basis of economic principles which may be contrasted with those governing the international economy of the non-Communist world.

In analyzing the operations of institutions such as CEMA, it is tempting to use the word integration as descriptive of the process of consolidation of Soviet control over Satellite economic activity. The use of this word, denoting the development of a single unit from formerly diverse parts, is at once useful and dangerous. It is useful in that the Bloc countries clearly have much closer economic ties with each other and with the USSR than they did in 1938 or even in 1948. It is dangerous in that it has many different meanings, not all of which may be characteristic of any particular situation.

For example, the existence of institutions carrying on certain formal coordinating and planning functions (such as CEMA) might be taken to prove the existence of an integrated economic system including the entire Soviet Bloc. If the institutions are inefficient, however, or if they cannot cope with the tasks assigned them, the integration will be in part a formality which does not affect what actually happens in the individual countries of the Bloc.

In economic terms the existence or nonexistence of an integrated international economic system does not depend upon the existence or nonexistence of an international planning agency. Pre-1914 Europe was an international system with interdependent parts, even though very limited national or supranational regulatory and planning powers were exercised. Conversely, the USSR, at the present time, could exercise complete political domination over the Satellites, including the determination of national economic plans, but if these plans called for complete national autarky, so that no foreign trade took place at all, the Soviet Bloc would not be an integrated international economic system.

There are three principal aspects of economic integration under Bloc conditions. The first relates to the development of specialization and economic interdependence among members of the Soviet Bloc, which might be measured by the importance of intra-Bloc trade in comparison with total output.

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The second aspect is the degree to which Satellite economies respond to the wishes of Soviet planners. If these wishes are embodied in the Satellites' Soviet-approved plans for development, output, and trade, Satellite responses could be measured by an index of plan fulfillment. One objection to this would be that some planned increases in output or productivity have been more ambitious and unrealistic than others. If so, the percentage increases in output and efficiency (rather than plan fulfillment) would be a suitable measure of integration. Also, some types of output or productivity and some types of plan fulfillment may be more important than others. If so, some weighting system would have to be devised corresponding to the relative importance of different types of products in the Soviet view.

The third aspect of integration is the extent to which plan fulfillment involves internal maladjustment. The production of goods for export results in both a demand upon available resources and a source of purchasing power, and the supply of imports is both a source of resources and an outlet for purchasing power. This is so, even though the movement of each particular commodity may be independent of both domestic and international prices. The aggregate effect of a trade program is therefore not independent of prices, since changes in price affect the incomes and expenditures of enterprises, individuals, and the Ministry of Finance, and it may be reinforced or offset by fiscal and monetary measures undertaken in the financing of foreign trade imbalances. Thus internal conditions will be influenced by changes in trade volume, in domestic prices, or in international (clearing ruble) prices. Unless a Bloc country is able to adjust its internal affairs to its trade program, it cannot be considered as being integrated into an international economic system.

These three aspects of integration are measured in different ways and may lead to diverse conclusions, but they are functionally related. A highly integrated Bloc economy would be one in which individual countries were highly specialized and fulfilled plans, increased output, and maintained internal stability. If plan fulfillment in 1 year is accompanied by financial disturbances, future output may be jeopardized. Maximum increases in output will be obtained only when specialization and trade are fully developed. Erratic increases in output which differ from plans can result in a lowering of future output and can cause internal disequilibrium.

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It would not be difficult to set up and knock down straw men to prove that "integration" does or does not exist in the Soviet Bloc. The discussion which follows will outline a process which seems to fall within the limits of reasonable definitions of "economic integration." The process of integration itself involves the establishment of institutions controlling the allocation of materials, both internally and internationally, by the various Satellites. From this discussion it might well be inferred that some central agency must exist to coordinate these activities in the individual Satellites and that a formal as well as a substantive integration of economic activity exists. An obvious suggestion would be that CEMA is this agency. Conclusive proof of the last two propositions is lacking, but available evidence continually increases the likelihood of their being correct.

2. Council for Economic Mutual Assistance.

The discussion of the Council for Economic Mutual Assistance (CEMA) in Section I of this report suggested that it is an agency which coordinates the national planning systems of the individual Satellites. The discussion below indicates that since about 1950 the Satellites have established systems for the internal allocation of materials and that these systems provide the means for simultaneously controlling the imports and exports of individual commodities. There is no direct evidence that CEMA is actually the agency controlling these allocations systems, though such a function would be consistent with CEMA activities.

The CEMA Protocol, as indicated above, provided that, beginning in 1950, annual economic plans of the individual Bloc countries were to be cleared through CEMA, and some press reports speak of a meeting in May 1949, in which it was decided to coordinate import requirements and economic plans generally.\* The actual implementation of the planning functions implicit in the CEMA structure has been slow. But the individual Satellites, with the possible exception of Bulgaria, now appear ready to embark upon a coordinated Five Year Plan in 1956. A statement of Josef Pucik, for example, indicated that Czechoslovakia would postpone its Second Five Year Plan until 1956-60 because by that time branches of the economies of most of the people's democracies and the USSR will be coordinated. <sup>88/</sup> A speech by Walter Ulbricht to the East German Communist Party in March 1954 referred to CEMA cooperation as a factor in the changes in economic development brought about by the "new course." <sup>89/</sup> Finally, in

\* Neue Zuericher Zeitung, 20 June 1949.

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June 1954, Premier Siroky of Czechoslovakia stated that Czechoslovakia's Second Five Year Plan will be fully synchronized with the economic plans of the USSR and the other people's democracies. 90/

It is apparent, therefore, that in 1956 the Satellites will be ready to embark upon a coordinated five year plan in which CEMA has had considerable voice and may exercise a significant degree of control. The following discussion will attempt to summarize the events in Bloc unification leading to this development in order to indicate the kinds of economic problems with which the Bloc has had to cope.

3. Antecedents of the Council.

Economic integration of the Satellites may be said to have begun with the conclusion of the long-term trading agreements between the USSR and the individual Satellites. The first of these agreements was concluded in December 1947 with Czechoslovakia. A similar agreement with Poland followed in January 1948. These agreements provided for the negotiation of annual protocols for the delivery of goods in each direction, but the annual protocols were to function within long-term objectives concerning the level of trade to be attained at the end of the 5-year period covered in the agreement. A Soviet commentator, in discussing the announcements that such a treaty would be concluded, state:

Having been made possible, thanks to the advantages of the planned economy, this agreement will in turn assist the successful fulfillment of the 5-year economic plan of the USSR and the corresponding plans of the Czechoslovak Republic.\*

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The key to this sentence, which is characteristic of Soviet commentary on Soviet-Satellite trade during this period, is the expression "assist in the fulfillment" of economic plans. The expression implies that the agreements do not form a constituent part of economic plans but are superimposed upon them.

\* Pravda, 16 July 1947. Margaret Dewar, Soviet Trade with Eastern Europe, 1945-1949, London, 1951, p. 25. Virtually the same phrasing appears in Szabad Nep, 27 January 1949, in comments on the relations of CEMA to the Hungarian economic plan.

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This situation would appear to have existed because long-run plans were not introduced in the Satellites until 1949\* and because the plans which did exist were not, in the Soviet sense, plans but rather forecasts. The Satellite administrative apparatus was at this time inadequate to provide the compulsion necessary to insure plan fulfillments, and the Satellite governments, like capitalist governments, could license trade but could not guarantee the execution of trade agreements. For instance, a Czechoslovak publication\*\* urged plants to give priority to deliveries under trade agreements, which would not have been necessary if effective planning and allocation schemes of the Soviet type existed. Not until effective control over the distribution system had been attained could the incorporation of the trade agreements into the general planning and control apparatus be completed.

4. Early Formulations of Council Functions.

The announcement of the formation of CEMA (published through the Bloc on 25 January 1949) speaks of "mutual assistance in regard to raw materials, foodstuffs, machinery, and equipment."\*\*\* This emphasis, which appeared in the explanations of CEMA functions early in 1949, seems to relate to trade among member countries, rather than to proposals for a planned increase in output, or integration of individual output plans. Thus one Soviet writer used this formulation:

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The economic conferences of representatives of Bulgaria, Hungary, Poland, Rumania, the USSR, and Czechoslovakia which took place in January of this year noted the considerable success in developing

\* Short-term economic plans of various kinds existed from the establishment of postwar regimes. Thus Poland had a 3-year plan covering the period 1946-48, and Czechoslovakia had a 2-year plan for 1947-48. These plans were primarily designed to coordinate the recovery of various economies and took place in an atmosphere of transition from Nazi and postliberation institutions to Communist institutions. The Yugoslav 5-year plan took effect in 1947, but the Soviet-Yugoslav conflict in 1948 intervened, and the Yugoslav exception is thus, for present purposes, irrelevant.

\*\* Prumyslový vestník, 14 April 1949.

\*\*\* All of these types of goods are loosely termed "materials" in Soviet Bloc economic literature. The main qualification of a "material" appears to be a homogeneity sufficient for statistical purposes.

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economic relations among these countries, as expressed primarily in the large growth of trade turnover.\*

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The Soviet formulations of 1949-50 concerning the forms of economic collaboration between the USSR and the Satellites listed technical aid, exchange of technical experience, formation of joint corporations, and the organization of trade exhibits,\*\* but no Soviet statement of a relation between trade and economic planning has been found prior to the end of 1949.

In the Satellites, reactions to the formation of CEMA varied somewhat. The Hungarian discussion\*\*\* was concerned with the need for integration of trade programs, and the other activities listed above, but was silent on the subject of any planning functions. Polish comment, too, is noted by an absence of discussion of the relation between trade and planning. A Polish "government spokesman"\*\*\*\* said that "by adopting the principle of multilateral trade the time-consuming negotiations of bilateral pacts will be avoided and a broader basis for trade established." This theme has found little response either in theory or practice.

In contrast to these reactions, Czechoslovak literature contains several fairly specific statements relating trade to planning. In early 1949, for example, it was stated that "the people's democracies must base their economy on the Soviet Union and on mutual economic collaboration." Long-term trade agreements were a prerequisite for Satellite development, and output plans were to be "set upon the basis of economic complementarity, so that the compensatory agreements can be included in the long-run economic plans."\*\*\*\*\* Another writer stated early in 1949:

\* A. Korolenko, "Ekonomicheskoye sotrudnichestvo SSSR i stran narodnoy demokratii," Vneshnyaya torgovlya, No. 4, 1949. Underlining added.

\*\* See the article by Korolenko, cited above, p. 54, and also "Ukrepleniye ekonomicheskikh otnosheniy mezhdu SSSR i stranami narodnoy demokratii," Vneshnyaya torgovlya, No. 5, 1950, by the same author.

\*\*\* Szabad Nep, 27 January 1949.

\*\*\*\* Cited in the New York Times, 27 January 1949.

\*\*\*\*\* Zdenek Pitra, "Generalni linie lidove demokratickych zemi," Planovane hospodarstvi (Statni Planovaci Urad), Prague, No. 1, 1949.

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Czechoslovakia is the first state with a planned economy for which foreign trade, both on the import and export sides, has key importance in economic development. There has therefore risen the problem of how to plan foreign trade, which in its nature is different from a plan for output, investment, or consumption, as an equal component of the over-all long-term economic plan.\*

5. Mikoyan Restatement of November 1949.

Whether because of Czechoslovak persuasion or because of the nature of the problem of controlling the economic activities of the Satellites, the Soviet government at the end of 1949 appears to have recognized the usefulness of the existing system of trade relations as a means of economic control. A change in Soviet trade policy was recognized by Mikoyan, Soviet Politbureau member in charge of foreign trade, who stated in a speech late in 1949 that as a result of increased Soviet trade,

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... there has been a change in the function of the foreign trade monopoly in its dealings with the people's democracies. It does not have the function of defending the Soviet economy, but is a means for a planned binding together of the Soviet economy with the economies of the people's democracies.\*\*

A Czechoslovak article, published at the same time as Mikoyan's speech, also moves the subject of over-all Bloc planning from the "should be" to the "will be" stage:

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Economic cooperation of the (CEMA) members ... is not limited to the exchange of goods ... . These countries will offer far-reaching technical aid in all branches of the economy, will coordinate their economic plans, establish a joint investment program, begin joint output programs, coordinate industrial output, all from the point of view of setting up

\* J. Stefan, "Zahranicni obchod v ceskoslovenskom hospodarstvi," Planovane hospodarstvi, No. 2, 1949.

\*\* A.I. Mikoyan, "Velikiy zodchiy kommunizma," Vneshnyaya trgovlya, No. 12, 1949. "Binding together" (coordination) is a translation of the Russian "uvyazka." The same information as given here has recurred continuously in Soviet literature since that time; for example, see N. Ivanov, "Vneshnyaya trgovlya evropeyskikh stran narodnoy demokratii," Vneshnyaya trgovlya, No. 10, 1952, p. 18.

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a division of productive forces according to the requirements of the country and its natural historical conditions.\*

6. Satellite Allocations, Planning, and Foreign Trade after 1949.

The trend toward coordination of foreign trade and economic planning within the Soviet Bloc has been closely connected with the reorganization of the wholesale distribution system of the individual Bloc countries. Table 1\*\* summarizes the data most readily available on the development of the wholesaling systems of the three most important Satellites: Czechoslovakia, East Germany, and Poland. The other Satellites seem to have followed a similar course of development, although documentation is more difficult.

The general trend in this field has been as follows:

(a) wholesale trade was nationalized by the end of 1949; (b) at first, there was a variety of types of wholesaling organizations, with a tendency for individual wholesaling enterprises to be engaged in the distribution of large numbers of commodities; (c) beginning in about 1950, allocations plans (in Bloc terminology "materials balances") began to be prepared; (d) eventually wholesaling functions were taken away from the earlier wholesale organizations and given to special administrations of the production ministries, giving each control over its own supply and distribution system; and (e) special planning units for the control over the distribution systems of the ministries were established in 1951-52.

In this way the Satellite wholesale distribution system came to duplicate that of the USSR. This system involves the use of a flow chart for each commodity planned, which indicates each source and each user of the commodity, so that it is possible to determine from which sources each user will obtain his supply. From 1948 until March 1953 these balances were approved in the USSR at the cabinet level, by the State Committee on Material and Technical Supply (Gossnab), which was established from the individual units formerly included in the State Planning Commission. After Stalin's death,

\* Zdenek Pitra, "Hospodarska spoluprace," Planovane hospodarstvi, No. 6, 1949.

\*\* Table 1 follows on p. 73.

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Table 1

Developments in Sovietization of Wholesale Trading Systems  
in Czechoslovakia, East Germany, and Poland a/\*

	Czechoslovakia	East Germany	Poland
Date of nationalization of wholesale trade or estab- lishment of first nation- alized wholesalers <u>b</u> /	August 1948 <u>c</u> /	1946 <u>d</u> /	1947 <u>e</u> /
Percent of trade conducted by private wholesalers			
Late 1948	N.A.	Negligible <u>d</u> /	30 <u>f</u> /
Late 1949 <u>b</u> /	0	Negligible <u>d</u> /	2 <u>f</u> /
Types of nationalized whole- salers in early phase of nationalization	(1) Supply and sales outlets of nationalized enter- prises (2) Wholesaling subsidiaries of General Directorates (3) Wholesaling administra- tions of industrial industries <u>g</u> /	(1) Corporations with 51 Percent of stock owned by the Laender (before 1949) (2) Administrations of the zonal Ministry of Trade and Sup- ply (3) Administrations of the Land Ministries of Trade (after 1949) <u>h</u> /	(1) Administrations of the Ministry of Trade <u>i</u> /
First reported use of materials balance plans	Plan for 1950 <u>j</u> /	Supplemental Plan for 3d Quarter of 1950 <u>k</u> /	Plan for 1950 <u>l</u> /

\* Footnotes for Table 1 follow on p. 74.

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Table 1

Developments in Sovietization of Wholesale Trading Systems  
in Czechoslovakia, East Germany, and Poland a/  
(Continued)

	Czechoslovakia	East Germany	Poland
Date of transfer of all wholesale functions to in- dustrial ministries	Late in 1951, in connection with the abolition of General Directorates <u>g/</u>	December 1951 <u>h/</u>	22 April 1949 <u>i/</u>
Establishment of materials planning units	Late 1952 <u>m/</u>	Early 1951 <u>n/</u>	June 1952 <u>o/</u>

a. This table refers only to wholesale trade in capital goods and materials, and to the disposition of output of consumer goods factories. In all these countries the Ministry of Internal Trade has wholesale functions which consist of the purchase of consumer goods and the resale of these goods to retail stores.

b. Note also that Hungarian wholesale trade was nationalized in March 1948 (Decree XXV - 1948), and that Prime Minister Rakosi declared on 17 August 1949 that only 6 percent of wholesale trade was still in private hands.

c. Decree No. 118 - 1949, Sbirka Zakonu.

d. Mehnert and Schulte, editors, Deutschland -- Jahrbuch 1949, Essen, 1949, p. 203; Nieschlag, "Die Organisation des Handels in der sowjetischen Besatzungszone," Wirtschaftsprobleme der Besatzungszone, Deutsches Institut fuer Wirtschaftsforschung, Berlin, 1948, pp. 368-377. In each Laender, two wholesalers were established in 1946, one dealing in raw materials and the other in finished goods; 51 percent of the stock belonged to the Laender, and 49 percent to private wholesalers (as compensation). These were completely nationalized in 1949.

e. Nowe drogi, No. 9, 1948.

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Table 1

Developments in Sovietization of Wholesale Trading Systems  
in Czechoslovakia, East Germany, and Poland a/  
(Continued)

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- f. Speeches by Hilary Minc, Chairman of Planning Commission, 30 December 1949, and Dietrich, Minister of Domestic Trade, 24 January 1950.
- g. Based on these articles in Planovane hospodarstvi: Z. Maloch, "Hmotne zasobovani," No. 7, 1949; J. Dolansky, "Prohlubenim planovaci metodiky k zajisteni zvysenych ukolu 5LP," No. 2, 1951; J. Balaban, "O nove metodice sestavovani planu materialne technickeho zasobovani na rok 1953," and the decree reorganizing economic planning in No. 4, 1952.
- h. Chronik der wirtschaftlichen und sozialen Gesetzgebung in der sowjetischen Besatzungszone, Deutsches Institut fuer Wirtschaftsforschung (hereafter referred to as Ostchronik), No. 10, supplement; No. 5, H - 22. This publication is a West German digest of East German decrees and regulations.
- i. Rzeczpospolita, 23 April 1949; and an article by W. Bugajski on the development of the supply system in Zycie gospodarcze, No. 17, 1949.
- j. Maloch, op. cit.
- k. Ostchronik, No. 4, D - 4.
- l. This conclusion is indicated by the description of the functions of the reorganized wholesale system given by Bugajski, op. cit.
- m. Dolansky, op. cit., indicates that this function was to be performed within the State Planning Commission.
- n. In 1950, this planning was evidently carried out in the Ministry of Trade and Supply (Ostchronik, op. cit., No. 4, D - 4), but in early 1951 it was transferred to a Special Cabinet Secretariat for Materials Supply (Ostchronik, No. 5, H - 2, D - 15).
- o. Speech by President Bierut at the 14-15 July 1952 meeting of the Central Committee of the Polish Workers' Party.

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Gossnab was once more returned to the State Planning Commission. The preparation of such a flow chart involves a means for determining the amount of materials which a given plant "should" obtain and a means of enforcing the decision reached. Under Soviet practice there is a widespread use of coefficients relating output of particular plants to inputs of particular materials, and the system is, in this sense, an "input-output approach" to allocations.\*

The enforcement of the balances prepared in this fashion is achieved through a system of wholesale trading organizations, one of which makes purchases and another of which sells on behalf of the plants of a particular ministry. These wholesalers sometimes act as brokers, instructing plants where to make deliveries, but sometimes they simply review the plants' order to make sure that the allocations plan is being observed.\*\*

a. Poland.

In Poland a decree of the Council of Ministers on 22 April 1949\*\*\* placed the state wholesaling organization (Centrale Handlowe) under the jurisdictions of the industrial ministries. A commentary published later during the year\*\*\*\* indicated that under earlier arrangements the wholesalers had not had the function of

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\* The Soviet input analysis differs from that used in the US (for example, W.W. Leontief, Structure of the American Economy, Cambridge, Mass., 1941) in two respects. First, it is based upon engineering data designed for optimum conditions in a given plant rather than upon average performance data on an industrywide basis. Second, it does not necessarily suppose that there is a price equilibrium for the economy as a whole, whereas the Leontief system was designed to indicate a unique relationship between prices and the quantities produced in a market economy.

\*\* This system should not be confused with the wholesale operations conducted by the Ministry of Trade, which purchases consumer goods directly from plants producing them or from the wholesale organizations of the respective ministries and resells them to the retail network.

\*\*\* Rzeczpospolita, Warsaw, 23 April 1949.

\*\*\*\* Waclaw Bugajski, "Development of Supply Centers," translated from Zycie gospodarcze, No. 17, September 1949. (Library of Congress, uncatalogued.)

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checking the order of individual plants against the requirements of the production plan or of supervision of procurement, production, and inventory in the individual plants. The new arrangements were designed to give the wholesale trading agencies economic functions as middle-men, since transactions which they might undertake were to be more in the nature of brokerage functions than of actual purchase or sale of goods. The new system probably did not affect 1949 operations but was designed for introduction in the 1950 plan.

In June 1952, President Bierut of Poland announced the formation of a central office for "the proper utilization and distribution of material resources" which "if properly staffed and run ... should become the directing center in the supplying of our whole economy.\* It is not clear whether this office is a part of the State Planning Commission, as in most of the Satellites, or whether it is a separate organization with equal status to the Commission, as in the USSR before Stalin's death. This reorganization would seem to affect the structure of controls over the wholesaling activities rather than to involve any basic change in the operations of the distributive system itself.

b. Czechoslovakia.

In Czechoslovakia, planning institutions underwent a more complicated transition process than in Poland, owing to the fact that there was greater administrative continuity than in Poland\*\* and owing to the greater recognition of the peculiarly foreign trade aspects of planning which resulted from Czechoslovakia's traditional position as a processing center in Central Europe. Czechoslovak planning, therefore, underwent a series of reorganizations: at the beginning of the Communist regime and the institution of the Five Year Plan in 1948, in connection with the introduction of materials balances in late 1949 and in connection with the final adoption, in late 1951, of institutions similar to those in the USSR and to those adopted in Poland in 1949.

\* Speech to the Central Committee of the Polish Communist Party, at the 14-15 June 1952 meeting, as broadcast on 20 June 1952.

\*\* The German occupation and the pre-Communist regime existing before February 1948 had maintained greater administrative continuity in Czechoslovakia than existed in Poland, where the German occupation largely obliterated prewar institutions and where the postwar Communist regime in turn obliterated occupation institutions.

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Thus when a considerable part of the Czechoslovak heavy industry was nationalized in 1945, the change in property status did not affect the organizational structure of the units involved. A large, complex organization (such as Skoda), on being nationalized, retained under state ownership very much the same structure of subsidiaries that it had had under private ownership. The second nationalization law of 1948 operated in practice in a somewhat similar fashion. In 1949-50, therefore, some plants were directly under industrial ministries; others formed part of a General Directorate, which had a certain degree of jurisdictional autonomy and which, in functional terms, might overlap into a number of sectors of the economy. There were therefore some wholesale trading organizations which were remnants of the former supply or sales organizations of private enterprises and were now part of General Directorates; while other nationalized wholesalers formed part of industrial ministries. Not until late 1951 were the General Directorates abolished. At this time, all producing enterprises were placed directly under industrial ministries; simultaneously, wholesaling functions were concentrated in special buying and selling organizations within the ministries.

In the Czechoslovak system before the end of 1951, planning was carried on by the so-called "counter-planning method." Under this system, both the State Planning Office and the individual ministries prepared plans which then had to be coordinated. The ministries often operated without an adequate knowledge of government policy, while the Commission operated without adequate knowledge of conditions in the industry. The final plan was usually dominated by submissions from local enterprises which often tried to set low targets to make possible overfulfillment. It could not be very precise in its directives to individual plants, because it dealt with only a relatively small number of goods rather than the entire output of plants.

Nevertheless, Czechoslovak plans, beginning in 1950, took into account "materials balances."\* A total of 2,000 commodities and commodity-groups, divided into two groups of about equal size, were planned, one in which commodity plans were in physical units and one in value units. Both the original Five-Year Plan, which went

\* A detailed account of the operations of the system at the plant level is given in Z. Maloch, "Hmotne zasobovani," Planovane hospodarstvi, No. 7, 1949.

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into effect at the beginning of 1949, and the annual plans took into account imports and exports. In some cases the individual plant applying for an allocation of imported goods would specify that it needed imports from a particular foreign country; in other cases, the imports would be allocated simultaneously with supplies of domestic origin, and the user had no option as to source. An attempt was simultaneously made to determine "requirements" by means of "coefficients."\*

This system in practice proved to be unsatisfactory. In criticizing it, Dolansky, the Chairman of the State Planning Office, stated in 1951:

CPYRGHT

Originally output was planned in output departments of the State Planning Office, and investment in the investment department, labor in the labor department and materials stocks in the balance department. This was not in accordance with the task of complex planning, for the plan of the balance department was prepared in isolation from data on execution.\*\*

Late in 1951, Soviet experts were called into Czechoslovakia to make recommendations concerning the improvement of Czechoslovak planning and administrative techniques.

To facilitate the administration of allocations, all plants were placed under the direct jurisdiction of industrial ministries, and the former General Directorates were abolished. Similarly, sales and supply wholesaling organizations were created within the ministries, bringing about a standardization of wholesaling functions in the Soviet manner. The purpose of this change was explained by Dolansky:

CPYRGHT

Materials requirements ... must become part of the combined output plan. Thus we must remove "tradesmen" who question materials balancing, and who put balance work into commissions where often auctioneering rather than planning is talked of.\*\*\*

\* Z. Maloch, "Hmotne zasobovani," Planovane hospodarstvi, No. 7, 1949.

\*\* Dolansky, "Prohlubenim planovaci metodiky k zajistení zvýšených úkolů 5LP," Planovane hospodarstvi, No. 2, 1951.

\*\*\* Dolansky, op. cit.

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Implicitly, this statement means that former wholesaling procedures had been conditioned by profit motives on the part of the distributing agencies and that allocation of resources into sectors which the state wished to develop took place only under favorable price conditions. By putting the wholesale organizations into an economic category different from that of the plants, in which the primary function of the system was allocations and where earnings depended upon plan fulfillment rather than satisfaction of the market, the Czechoslovak authorities hoped to obtain satisfactory results.\*

The preparation of projected increases in output and indexes of efficiency ("coefficients") was assigned to the State Planning Office rather than to the ministries, beginning with the 1953 plan. The determination of ways and means of achieving these targets was to be made at lower levels, mainly by the ministries. A separate plan, prepared by the State Planning Office, is not shown to the ministries, but is used only at the Presidium level to compare plans submitted by the ministries with over-all goals. This procedure replaces the "Counterplan" system.

c. East Germany.

In East Germany the development of wholesale trade and allocations was as follows: as early as 1946, wholesale trade in each Land was concentrated into two organizations dealing with raw materials and finished goods respectively. The stock of these corporations was divided between the Land and the former private wholesalers in the Soviet zone of occupation. When the German Economic Commission was set up in 1947 as the nucleus of the future zonal economic administration, it included a trade administration which, in 1949, became the Ministry of Trade and Supply. This Ministry absorbed the Land trade corporations and completed the nationalization of wholesale trade in 1949. The third step took place in December 1951, when the specialized commodity wholesaling units, which had developed within the Ministry of Trade and Supply, were broken up and assigned to the production ministries.

\* A discussion of the problem is found in J. Balaban, "O nove metodice sestavovani planu materialne technickeho zasobovani na rok 1953," Planovane hospodarstvi, No. 4, 1952, and in "Vladni usneseni o zavedeni metody sestavovani statniho planu rozvoje narodniho hospodarstvi v CSR," in the same publication, in addition to the Dolansky article already cited.

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East German experience differs from that of other Satellites in that relatively effective anti-inflationary controls preceded and did not follow the establishment of allocations. As early as 1949, a Richtsatzplan, or current assets plan, provided the basis for inventory controls by the Deutsche Notenbank. Not until the supplemental plan for the third quarter of 1950 was provision made in the general economic plan for the establishment of materials balances. The supervision of this allocations system was originally given to the Ministry of Trade and Supply, but ultimately a specialized State Secretariat was created to supervise this program. The date when this Secretariat was created is not known, but it apparently was in 1951.

This administrative system proceeded to set up commissions at the factory level in February 1951. These commissions were to report by May to their respective ministries concerning the norms or input-output coefficients applicable to their plants.\* In order to enforce the allocations system implied by these norms, a system of "general contracts" was set up in December 1951, which were the contractual expression of the materials balances as a plan. Contracts between individual enterprises were to be considered as "subcontracts" of the general contract, which was to be administered by the Handelszentrale, or wholesale agencies.\*\*

There has clearly been an important discrepancy between the theory and practice of these plans, as may be seen in the statements of Rau, the head of the planning apparatus. In October 1951, he spoke of the need for establishing "honest" materials requirements norms.\*\*\* Three months later\*\*\*\* he complained that norms existed only in power, metallurgy, and transport. In May 1953, however, he spoke of "at last taking serious steps in training materials consumption norms"\*\*\*\*\* and of enforcing the contract system.

In these and other speeches, Rau mentions difficulties in meeting export plans as well as tendencies to overimport. Such mention is ordinarily in the same context as the criticism of con-

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\* Ostchronik, D/5/4.

\*\* Ostchronik, H/5/20.

\*\*\* Speech of 31 October 1951 to People's Chamber.

\*\*\*\* Speech of 2 February 1952 to People's Chamber.

\*\*\*\*\* Speech of 16 May 1953 to the Central Committee of the Socialist Unity Party.

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sumption norms and the contract system. A study of the Rau speeches, therefore, tends to reinforce the conclusion that the allocations system, as described above, is ultimately connected with foreign trade problems.

7. Relationship between Allocations and Intra-Bloc Trade.

The relationship between allocations and trade within the Soviet Bloc results basically from the planning methods in use in the USSR and now being applied to the Satellites. In brief, the planning authorities wish to divert resources into desired channels without having to create price differentials in order to encourage enterprises to behave in the manner desired. The establishment of controls, therefore, must take place on a commodity-by-commodity basis, with strict definition in the plan of the sources and users of commodities. In cases where the commodities enter into international trade, the government of a particular Bloc country must consider an export as an obligation to be met under international commitments and must include allocations for export purposes in its distribution plan. Similarly, when imports are an important source of supply, imports, too, must be included in the plan. In principle, all materials are individually allocated. Substitution is difficult, even when deliveries of a commodity are not made in planned amounts, since the substitutes themselves are allocated. In both Poland and Czechoslovakia the close relationship between allocations and foreign trade has been stressed. Thus Polish President Bierut stated in the speech cited above:

At the present stage of the development of our industry and of the entire economy, the problems of supplies for industry become one of the most important problems, requiring a new formulation and solution. This is quite comprehensible in our present situation in which, as is known, we do not produce a number of raw materials or produce them in insufficient amounts ... . The development of industry requires a great quantity of machinery and installations, the production and imports of which are not always sufficient ... .

Similarly, Dolansky, Chairman of the Czechoslovak State Planning Commission, declared in the article already cited:

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Progress has been achieved in combining the investment plan with the output plan. In the materials stocks, however, the stage of administering the consumption of the so-called contingents has not been reached. Materials requirements, however, must become part of the combined output plan.

The "contingents" to which he refers are quotas for imports and exports under the bilateral trade agreements. Hence a lack of control over the consumption of contingents implies a lack of coordination between foreign trade and domestic plans, which is reflected in the "materials stocks," or allocations problem.

Although the Satellite literature on allocations is frequently critical (Bierut called the Polish process "hole-patching" on a case-to-case basis), it appears that basic institutions to control allocations now exist and that the allocations programs, however inefficient in execution, are closely related to foreign trade. As Otto Kocour, Czechoslovak Deputy Minister of Foreign Trade, declared:

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We know that our economic development plan is worked out on the basis of the export and import plans of the individual people's democracies ... . In practice this means that, say, Czechoslovak machines or mechanical equipment budgeted in the Soviet import plan are counted on in the building of [Soviet] projects ... in the same way in which we reckon with Soviet deliveries of raw materials when we draw up our plans for new enterprises ... .\*

Thus despite obvious inefficiencies and delays in the operations of the materials allocations system, it would appear that since the beginning of 1950 there has been an attempt to coordinate the allocations aspect of economic planning in the individual Bloc countries. By the end of 1950 and in 1951, Soviet commentators began to comment upon this coordination in a tone which they had never used before:

CPYRGHT

The Satellites are successfully using the developing socialist division of labor among the countries of the socialist camp ... . The socialist character of the division of labor permits each country ... to build industry ... throughout the entire country in the interests of its economic development.\*\*

\* Prague Radio, 28 February 1953.

\*\* Paramov, op. cit.

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In selecting the branches to which priority in development is given, each country, in addition to its own raw materials base and other favorable internal conditions, takes into account the importance of the various branches of its economy for its own economic development, and in addition is governed by the requirements of the other fraternal countries.\*

Figure 2\*\* shows the typical pattern of trading relations between two Soviet Satellites, emphasizing the role played by allocating and trade agencies.

8. Impact of Allocations Plans on Bloc Trading Methods.

During the early period after the consolidation of Communist power in the Satellites, these countries imitated the USSR in vesting monopoly powers over foreign transactions in a Ministry of Foreign Trade and in creating specialized corporations, the stock of which was entirely owned by the Ministry, for the purpose of trading in particular commodities or with particular areas.

This system of trade was useful in trading outside the Soviet Bloc, since these corporations could operate abroad as legal entities and could appear in foreign legal proceedings without violating the laws relating to suits against governments. The use of such corporations in trade between Soviet Bloc countries, however, seems to be unduly cumbersome, particularly when a system of international allocations has been set up. If corporations conduct intra-Bloc trade, then goods in this trade must pass through the hands of (a) the producer in the exporting country, (b) the wholesaler in the exporting country, (c) the foreign trade corporation of the exporting country, (d) the foreign trade corporation of the importing country (e) the wholesaler of the importing country, and (f) the final purchaser in the importing country. Given an effective system of trade and payments, the third and fourth steps in this chain would not appear to be necessary.

Several steps have been taken in the past year or two which would facilitate the abolition of foreign trade corporations in intra-Bloc trade, and a number of Soviet statements are suf-

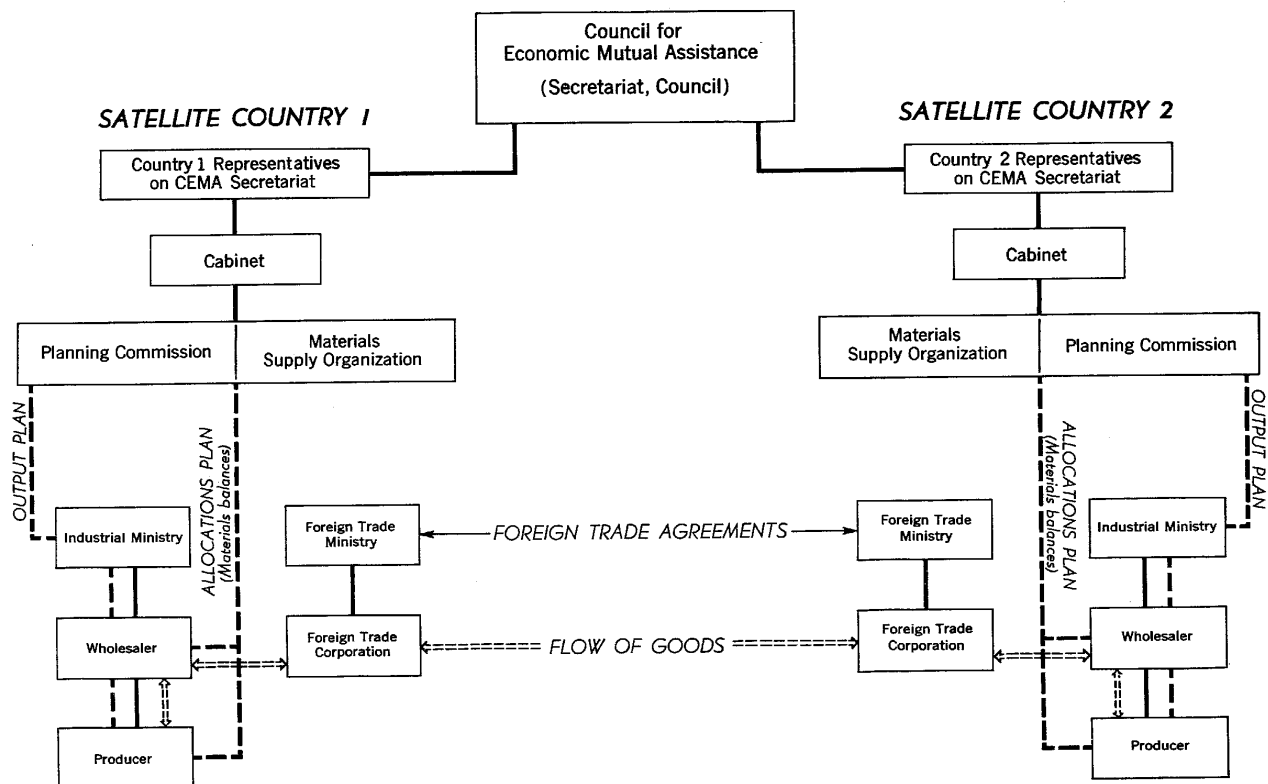
\* Dudinskiy, "Novyy tip mezhdunarodnykh ekonomicheskikh otnosheniy," Bol'shevik, No. 22, 1951.

\*\* Following p. 84.

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Figure 2  
TYPICAL TRADING RELATIONS  
BETWEEN TWO EUROPEAN SOVIET SATELLITES

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ficiently ambiguous as to suggest that trade may actually be to some extent conducted directly among wholesalers. One step has been the establishment of payments procedures for goods moving in international trade which does not differ in any important respect from that used in domestic payments. This means that the "exporter" (who could equally well be a foreign trade corporation, a wholesaler, or a producing enterprise) draws a draft on the "importer" (who could also be a foreign trade corporation, wholesaler, or producing enterprise) and deposits it in his bank, receiving an advance against it just as if he were dealing with a domestic enterprise.\*

In addition, agreements have been reached on standard shipping rates on all trade within the Soviet Bloc\*\* and on standard items for contracts in international trade.\*\*\* Finally, there is evidence of standardization of prices used in the bilateral agreements, so that a single price would be used by exporters, regardless of the importing country.\*\*\*\* This last provision would make it possible for exporters to make out drafts directly, in clearing rubles, without the foreign trade corporation having to participate.

There is a certain amount of oblique evidence as to the possibility that the role of foreign trade corporations is declining. The list of Polish foreign trade corporations, for example, suggests that, in many of the commodities called "materials" in Bloc usage, the trading corporation is actually the same as the domestic wholesaler. Finally, a Soviet book reviewer\*\*\*\*\* has pointed out that

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\* M. Polyakov and V. Trubenkov, "Gosbank i mezhdunarodnyye denezhnyye raschety SSSR," Finansy i kredit SSSR, No. 2, 1952; P.I. Petkov, "Mezhdunarodnite plashchaniya," Finansy i kredit, Sofiya, No. 3-4, 1951.

\*\* V. Klochek and K. Viryasov, "Ekonomicheskoye sotrudnichestvo stran lagerya sotsializma," Vneshnyaya trgovlya, No. 2, 1952. The agreement was concluded in November 1951. Petkov (op. cit.) states that rates are quoted in rubles, suggesting that payments for freight are automatically included in the bilateral clearing accounts.

\*\*\* N. Cheklin and A. Korolenko, "Torgovo-ekonomicheskkiye dogovory i soglasheniya SSSR s narodno-demokraticheskimi stranami," Vneshnyaya trgovlya, No. 11, 1951.

\*\*\*\* I. Dudinskiy, "Ukrepleniye i razvitiye mirovogo demokraticheskogo rynka," Voprosy ekonomiki, No. 6, 1953.

\*\*\*\*\* Review of Kalyuzhnaya, "Pravovyye formy monopolii vneshney trgovli SSSR v ikh istoricheskom razvitii," Vneshnyaya trgovlya, No. 3, 1952.

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a monopoly over foreign trade (which is an article of faith in Marxist dogma) does not necessarily require that all transactions be carried out through the Ministry of Foreign Trade. It is sufficient that foreign trade be subordinated to the central planning apparatus.

9. Limitations on Effectiveness of Allocations System.

It has been indicated that the Satellite governments have not been satisfied with the practical workings of the allocations system. In late 1952 and early 1953 a number of Satellites experienced delays in making planned export deliveries.\* These difficulties do not appear to be the result of actual production declines or a lack of a formal allocations mechanism but are to be explained by the operations of the financial system.

The allocations system can take care of the receipt of materials by a plant or of the distribution of the output of a plant. It cannot, however, take care of the flow of materials within the plant. In particular, the allocations authorities do not have the opportunity to control materials once they have reached the plant and have been partly processed or before they have been completely processed so as to become "finished goods." Allocations, therefore, cannot control the important part of a plant's inventory consisting of "goods in process." A plant which wishes to circumvent the allocations program can manipulate the composition of its inventories in order to keep both finished goods and materials inventories small relative to unfinished goods inventories. Since an increase in inventories resulting from increases in goods in process is considered as a part of the gross output of the plant, such a policy does not interfere with the completion of the output plan, although it will, of course, tend to hold deliveries below planned levels.

\* "While the USSR discharges her obligations with accuracy, many [Czechoslovak] supplies of machines, equipment, and other products for the USSR lag behind schedule." (Kocour, speech of 28 February 1953, cited above). Hungarian delays in exports were criticized in Magyar memzet, 27 December 1952. Rumanian authorities criticized "breakdowns in the supply of materials and raw materials," a phenomenon of the same sort, with domestic users rather than foreign users bearing the brunt of the difficulties. (Speeches by Constantinescu, Scanteia, 6 November 1952, and by Stoica, Scanteia, 25 November 1952.) East German exporters are criticized by Rau in a number of the speeches cited above.

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The plant may have an incentive to carry out such a manipulation for various reasons. If the plant anticipates a shortage of a particular material, it can hoard it as "unfinished output," while maintaining purchases at as high a rate as the allocations authorities will permit, so as to provide a maximum of slack in the event of unforeseen shortages in deliveries. Similarly, the plant may maintain large inventories of almost finished goods so that if pressure is placed upon it to increase output, it can do so within a short period by finishing these goods rather than by actual new production. The "unfinished goods" inventory is thus, from the point of view of factory administrations, a form of insurance against unexpected shortages and demands by the authorities.

The instrument for preventing such practices is not the allocations system but the central bank. If the bank considers that a plant has excessive inventories, it can refuse to extend credit, and the plant, in order to meet current payment demands, will be forced to reduce its inventories. In the USSR, such credit restriction has been greatly expanded and enforced since mid-1948 by means of a campaign to reduce the ratio of inventories to current output.\* Such a program aids in the success of the allocations program by making it difficult for enterprises to finance inventories of unfinished goods.

The banking system of a Soviet-type economy, besides presenting technical problems to administrators of allocations schemes, has a general impact which may affect international economic relations within the Bloc. This is true because banking operations affect inventories and the money supply of individual countries, and these in turn may affect their ability to carry out trade programs.

Increases in bank credit make it possible for enterprises to hold more inventories than they otherwise could; it also gives them greater liquidity, and hence greater purchasing power than they would otherwise have. As output and income of enterprises rise, there will be an increase in the amount of inventories and cash which they need to carry on current transactions. If, however, enterprises have too much cash, they will tend to hoard inventories rather

\* The standard term used in Communist literature is "to increase the speed of turnover of working capital" -- that is, to increase the ratio of output to inventories.

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than release them for sale. Shortages will then appear throughout the economy, since output cannot rise enough (being normally close to capacity) to counteract the effects of additional inventory hoarding. These shortages will affect foreign trade, as exporting agencies will find it difficult to obtain the goods necessary for export programs and as enterprises using imported goods will tend to over-order for inventory purposes. In these circumstances an increase in bank credit will tend to create a deficit in foreign trade transactions, even though the trade plans call for bilateral balancing of accounts.

In view of the more or less continuous inflation of credit and money in most of the Satellites, it is not surprising that many of these have had difficulties in completing their export programs. In fact, it would appear that the obstacles to the establishment of a working international economic system within the Soviet Bloc are not so much a failure to complete output plans or to increase output or even a failure to establish a substitute for a market mechanism, for both of these problems are apparently being dealt with within the limits of Bloc administrative efficiency. Rather, the chief obstacle is an absence of internal controls over the operations of the monetary system. This defect has led to steady inflation and the disruption of international allocations systems which might otherwise have led to a workable substitute for a market system.

B. Future of Bloc Economic Integration.

1. Ultimate Incorporation of Satellites as Soviet Republics.

The preceding discussion has shown that planning in the Bloc countries is becoming more centralized in the Moscow CEMA apparatus, that economic cooperation has advanced to the point of their coordinating 5-year plans, and that multilateral trade and transferability of ruble clearing balances is a probability for the future. It is quite possible that this process of unification, unless interrupted from the outside, will be carried to its logical conclusion -- that is, incorporation of the Satellites as Soviet Republics.

One report 91/ indicates that the following three-step plan for over-all policy has been spelled out at Cominform meetings: (a) create Satellite dependence on Soviet trade, (b) develop economic union among the Satellites, and (c) incorporate the Satellites in

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the USSR. Nothing that is known about intra-Bloc trade conflicts with this description of Communist aims; indeed, it is supported by most available data. Step (a) has been in process for some time and will be accelerated as industrialization progresses. Step (b) is implemented in the present coordination of the planning activities of the Bloc. Step (c) is still at some distance.

What differences would there be between the economic institutions of a Satellite which had succeeded in modeling itself on the USSR and a Soviet republic? The existence of a Satellite Ministry of Foreign Trade is one of these differences. It may be anticipated that as incorporation approaches, the functions of these ministries will disappear as far as intra-Bloc trade is concerned. Foreign trade corporations in particular could be dispensed with for intra-Bloc trade. Functions of a foreign trade ministry other than the supervision of trade monopolies either would be unnecessary or could be handled by a ministry acting for the Bloc as a whole.

Banking institutions as such could be quite easily absorbed into a unified system, with transferability of clearing ruble balances among the Bloc countries. A more formidable obstacle to incorporation is the fact that domestic prices are different in each Bloc country and also differ from the clearing ruble prices used in trade. The establishment of a single monetary unit would involve the adjustment of relative price relationships, which seem to be far from uniform at present. The repercussions of such a change on the economy of any of the Satellites would be widespread and not easily predictable. The rigidity of the entire price mechanism under Soviet control methods may give some stability to present arrangements.

Incorporation of the Satellites into the USSR would simplify existing institutional arrangements. Abandonment of the councils of cooperation and their committees; amalgamation of CEMA with the All-Union State Planning Commission of the USSR; incorporation of the foreign trade enterprises handling trade with the West into appropriate Soviet trade monopolies; and amalgamation of the production, distribution, and trade ministries would then be possible. Present Satellite planning functions would be subordinated to the general planning commission, just as the Republic functions in the USSR are now subordinated to the All-Union State Planning Commission; joint corporations would cease to be different from other state-owned enterprises; and international loans would be written off as indebtedness of one Soviet agency to another.

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Disregarding here the social and political aspects of incorporation, the principal economic obstacle to unification seems to lie in the differing price structures in the Satellites rather than in the existence of different institutional and control techniques.

2. Perpetuation of Bilateral System.

It is not easy to see why the present system of relationships has been permitted to grow and crystallize during the postwar years. First, industrial development plans in the Satellites seem to be directed toward a wasteful degree of individual self-sufficiency. Each of the Satellites except Albania is to be given a "heavy industrial base" of its own. Some of this development probably would not have taken place if the Satellites had been an integral part of the USSR. The imminence of coordinated planning in 1956, a new stress on specialization and political statements discussed below indicate that some of the excesses of this "industrialization" will now be corrected.

Second, bilaterally channeled trade leads to an inefficient use of resources because it inhibits specialization in production. Almost all products are necessarily scarce during periods of inflationary expansion, so that one country's failure to export causes damage to another country's output, retaliation by the second country damages the first, and both are weakened in their ability to supply third countries. The over-all superior bargaining position of the larger countries producing scarce industrial goods and having a more diversified output is accentuated when total trade and production are administered by national monopolies. With each country pushing ambitious plans for industrial expansion, trade takes place in an atmosphere of antagonism and distrust.

It is certain that the withholding of scarce products by Satellite trade ministries has been widely used as a bargaining weapon. It is probable, also, that the intermonopoly bargains of Bloc trade have resulted in extremely arbitrary external prices bearing little systematic relation to production costs. Considerable distortions from optimal resources allocation were therefore inevitable.

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These developments, which are irrational in terms of ultimate Soviet objectives, suggest that economic unification was not an immediate aim of Soviet policymakers until several years after the end of World War II, when Communist power had been consolidated in Eastern Europe and when prospects for expansion to the West had receded.

By 1948, Satellite economic policy was becoming more clearly defined. In the absence of detailed directives from Moscow, Satellite domestic economic planners were copying closely the Soviet experience, in which one country with a wide variety of undeveloped resources had been expanding heavy industry in relative isolation. This helps in part to explain the Satellite stress on industrialization. The fact that the Satellites industrialized at such a fast tempo also necessitated a highly centralized and powerful planning mechanism, for which they could invoke Soviet precedent again.

It is interesting to note that, while the control mechanisms have been retained, there has been recently a departure from the emulation of Soviet industrialization. The best example of this change is seen in the speech by Mihaly Farkas, Hungarian Party Secretary. 92/ In this speech, Farkas condemned the mechanical copying of Soviet economic development and pointed out that the policy of rapid industrialization in Hungary had been in error. Similar changes in the direction of industrial development have been noted in other Satellite countries. While these changes arise, in part, from the political implications of the "new course," they also indicate a reshaping of Satellite economic development programs resulting from the increased coordination and economic unification of the Soviet Bloc.

Another Soviet precedent was the early establishment of central control of foreign trade and the formation of state trading monopolies. Even in the early period after the war the USSR tried to expand its trade with the Satellites far beyond the prewar level or any level which normal economic pressures would dictate. This meant that the Satellites had to use some form of compulsion to direct the course of trade into politically acceptable channels. Since deliveries were highly uncertain and convertible exchange holdings were small, bilateral balancing and nontransferability of currencies were

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the basis of the trading system which developed. A relatively decentralized and inefficient set of international economic relationships could thus have grown up merely because Moscow did not actively interfere in its development.

Furthermore, the Kremlin may not have welcomed too close collaboration among the Satellites until such time as this could be organized under strong Soviet control. The initial postwar regimes in several of the Satellites were coalition governments in which the Communists exercised increasingly effective but not overt domination. Non-Russian Communists of long standing (for example, Tito) might prove untrustworthy, and even these were few in comparison with groups whose loyalty to the USSR was certainly questionable by Soviet standards. A precautionary effort to "divide and rule" would thus prevent premature collaboration among Satellites potentially hostile to Soviet power. These political considerations may have kept the USSR from checking the economic trends toward isolation of the individual Satellites from each other.

The USSR may even have encouraged inter-Satellite antagonisms or failed to take measures for their elimination. For example, a statement by Dimitrov of Bulgaria on 16 January 1948\* discussing the possibility of a future political and economic federation in Eastern Europe (from which the USSR was omitted) was specifically repudiated by Pravda\*\* and later by Satellite spokesmen.\*\*\*

The Soviet government may consciously have pursued a policy of economic decentralization in order to minimize losses to the Bloc economy in case any one Satellite should be detached from Soviet control through war or revolution.

When, therefore, Soviet planners apparently decided to proceed with a program of integrating the Satellites into a single economic unit, some time during 1948, they were forced to deal with a series of countries, each of which was attempting to build an independent system of controls as rigid as those prevailing in the USSR itself. In order to strengthen its control over the Satellites, the USSR had to permit the growth of effective planning functions in each Satellite and to encourage the establishment of institutions

\* New York Times, 18 January 1948.

\*\* Pravda, 28 January 1948.

\*\*\* New York Times, 30 January 1948.

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which isolate the operations of each Satellite from the rest of the Bloc and hinder the growth of a unified system of economic relations. The desired control having been attained, the stress now is on increased coordination and a division of labor among the Satellite states.

3. Future of Over-All Bloc Planning.

The future of over-all Bloc planning depends, in part, on Soviet ability to get the Satellite countries to behave in a uniform way, even though the institutions in each were originally designed to counteract external pressures and facilitate autarky. This is, presumably, the reason why the rather cumbersome mechanism for central coordination of trade agreements and allocations programs has been necessary.

CEMA is potentially an international planning commission which could design and implement a unified program for economic development. Its initial activities in this complex field have naturally been centered on allocating scarce materials and on long-term output targets.

The mere existence of CEMA is no proof of the existence of a highly unified system of national economies operating within the Soviet Bloc. Many of the decentralizing economic influences and competitive practices cited above still exist, and will continue, though presumably diminishing in force.

Perhaps the greatest political obstacles to a rapid unification are the nationalist sentiments within Eastern Europe. It may have been a Soviet acknowledgement of their importance that has covered CEMA activities with secrecy. The recent publicity given to CEMA activities and the differentiation in the direction of economic development in some Satellites may indicate that this problem is no longer such an important one. Or it may indicate that Soviet control is now so strong and the coordinated programs now so advanced that the traditional nationalist sentiments are not now as important. In this connection it is significant that recent publicity given to CEMA has stressed it as a genuinely cooperative enterprise of all Satellite states acting in friendly concert. It has attempted also to coordinate foreign trade policies and to eliminate disputes and frictions in this field, but it has not been very successful. There has been a noticeable



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lack of cooperation among CEMA members in the exploitation of export markets, which has resulted in damaging competition characterized, for example, by dumping. 93/ This lack of coordination of foreign trade policies and practices reflects one area in which CEMA is definitely failing to fulfill its responsibilities.

The future of economic unification within the Soviet Bloc seems to depend basically upon (a) movements toward the unification of price structures, so that transferability of currencies becomes possible; (b) the development of specialization in the Satellites to a point where not all countries have the same types of heavy industry; (c) the ability of the individual Satellites to achieve internal monetary stability; and (d) coordination of long-range economic planning, such as 5-year plans. It is not possible at this time to determine whether the administrative structure and formal responsibilities of control agencies such as CEMA are of such a character as to make possible the achievement of unification of the Bloc. But even under perfect administrative arrangements there would still be economic obstacles to the efficient functioning of over-all controls such as are implied by CEMA. While it may be supposed that the Bloc could overcome all or most of the various obstacles now existing, it cannot be concluded that the Bloc has yet done so. In this sense the sovietization of the individual Satellite economies has proved the major obstacle to the economic incorporation of the Satellites into the USSR.

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APPENDIX A

PROTOCOL CONCERNING THE CREATION OF A COUNCIL FOR ECONOMIC MUTUAL ASSISTANCE  
BETWEEN THE GOVERNMENTS OF THE USSR, THE REPUBLIC OF POLAND,  
THE REPUBLIC OF CZECHOSLOVAKIA, THE RUMANIAN PEOPLE'S REPUBLIC,  
THE REPUBLIC OF HUNGARY, AND THE REPUBLIC OF BULGARIA  
SIGNED AT MOSCOW, 18 JANUARY 1949 94/

The representatives of the governments of the USSR, the Republic of Poland, the Republic of Czechoslovakia, the Rumanian People's Republic, the Republic of Hungary, and the Republic of Bulgaria assembled today, 18 January 1949, in Moscow have resolved as follows:

Article 1. A multilateral economic organization, named the Council for Economic Mutual Assistance, composed of all the countries represented and named above, is created for a period of 20 years from the signing of the present protocol.

Article 2. The purposes of this organization are:

(a) To coordinate the economies of the signatory countries within a general economic plan developed by the Council.

(b) To supervise the consolidation and development in each country of the industries and resources of each of the respective countries in such a manner that the industries of all the signatory countries will no longer be competitive but will compose a homogeneous whole, complementing one another.

(c) To aid in the economic reconstruction of each country individually, bearing in mind for this purpose the possibilities of providing each country with raw materials.

(d) To increase the capacity of each country for the production of raw, processed or semiprocessed materials by establishing mixed companies or associations for exploration and exploitation of surface and subsoil resources.

(e) To arrange for exchanges of experience.

(f) To standardize and increase the quantity as well as the quality of industrial products of the signatory countries.

(g) To assure the sale of the products of member countries.

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(h) To accord assistance by loans or arranging investments for the purpose of strengthening the economy of each signatory country.

Article 3. A permanent Secretariat General will be created with its seat in Moscow which will have at its disposal a fund of 100 million rubles (US \$19 million at 1949 exchange rate) obtained as follows: 50 million rubles (US \$9.4 million at 1949 exchange rate) from the USSR and 10 million rubles (US \$1.9 million at 1949 exchange rate) each from the other signatory countries -- sums which must be deposited either in free currency, rubles or gold by 1 April 1949.

Article 4. The Council will be convened whenever it may be necessary, each time in a different country under the presidency of the delegate of the host country but not less frequently than once every 3 months.

At these meetings the economic situation of each country individually will be discussed and analyzed.

Article 5. Beginning with the year 1950 the economic plans of all member countries will be drawn up in conformity with the advice of the Council, but for the present year each signatory country will endeavor to adapt its own economic plan to the provisions of the present protocol and the advice of the Secretariat General insofar as any investment of funds in the execution of predetermined parts of the economic plans of each member country has not taken place up to the signing of the present protocol.

Article 6. The present protocol neither excludes, annuls, nor alters in any way commercial agreements already signed by any of the parties to this agreement and which are communicated to the Secretariat General within a period of 30 days.

Article 7. The Council may approve or disapprove every request for admission to the Council on the proposal of the Secretariat General.

Article 8. Each signatory country is obligated to make available to the Council all information and documentary material necessary to permit and facilitate the task of the observers which the Council may find necessary to send into any of the signatory countries upon the proposal of the Secretariat General, which has authority to make any decisions, subject to their ratification by the Council at its first meeting.

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Each signatory country is also obligated to accept and follow the advice of any counselors and technicians which the Council may find necessary to send, directly or upon request, to any of the signatory countries.

Article 9. The governments of the signatory countries obligate themselves to send to the Secretariat General within the first 5 days of each month a detailed statistical situation report concerning production and any other documentary material pertinent to the economic and financial situation of the country concerned for the past month.

The present accord becomes effective as of the date of its signing and is valid for 20 years. It can be prolonged for another period of 10 years in the event it is not abrogated.

Its abrogation is possible by any of the signatories by means of a written notice 2 years in advance of expiration or withdrawal from the Council.

Drawn up at Moscow this day, January 18, 1949, in six copies each in the Russian, Polish, Czech, Rumanian, Hungarian, and Bulgarian languages, all copies being equally valid.

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APPENDIX B

JOINT CORPORATIONS IN RUMANIA

I. Introduction.

The term Sovrom refers to companies owned jointly on a 50-50 basis by the USSR and Rumania.\* The stated purpose of the joint companies was to strengthen the economic structure of the participating countries\*\* by sharing natural resources, raw materials, capital goods, and technical experience. The profits of the companies, according to the Sovrom agreements, were divided equally between the two shareholding countries.

Agreements signed 31 March and 18 September 1954 were stated to have provided for the transfer to Rumania of the Soviet share in 12 of these joint companies 95/. Despite the fact that this action completed dissolution of most of the Sovroms, during most of the post-war period they constituted an important segment of Rumania's economy.

In 1945 an agreement between the USSR and Rumania contained a provision for the establishment of the first Sovroms. These Sovroms were Sovrompetrol, for production and processing of petroleum; Sovromlemn, for cutting and manufacturing lumber; Sovromtransport, a marine transportation enterprise; TARS, an air transport enterprise; and the Sovrombanc, for financial transactions between the two countries.\*\*\* From information available, it appears that these companies did not assume management of their respective operations until 1947, when on 20 February of that year an agreement was signed providing for assumption of control.

\* Sovroms were the first joint companies formed by the USSR with a member of the Soviet Bloc. Since their creation the USSR formed similar companies with Hungary, Bulgaria, Communist China, North Korea, and East Germany. Little is known about these companies. There are also two inter-Satellite joint companies -- one between Rumania and East Germany and the other between Rumania and Hungary.

\*\* Foreign Commerce Weekly, 30 October 1948.

\*\*\* Margaret Dewar, Soviet Trade with Eastern Europe, 1945-1949, Royal Institute of International Affairs, London and New York, 1951, pp. 78-80.

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In addition to the foregoing Sovroms, 12 other joint companies have been formed in Rumania since 1948. These companies and their proposed functions are as follows:

1. Sovrommetal, production and standardization of machines and metals.
2. Sovromgaz, utilization of natural gas.
3. Sovromchim, production of chemicals.
4. Sovromtractor, production of tractors.
5. Sovromcarbune, coal mining.
6. Sovromsigurari, insurance.
7. Sovromfilm, motion picture distribution.
8. Sovromconstruction, construction of roads and bridges.
9. Sovrom Oil Equipment Company, production of oil drilling equipment.
10. Sovrom Naval Company, construction of ships and manufacture of naval equipment.
11. Sovrom-Arte-Poligrafice, printing and publishing.
12. Sovromquartzite, uranium mining.

II. Sovrom Capital.

The Soviet contribution to the capital of the Sovroms established in 1945 consisted of German interests in Rumanian firms, which, under the terms of the Potsdam Conference decisions, became Soviet property.\* Until the nationalization of Rumanian property in 1948, Rumanian private shareholders in some cases owned the Rumanian portion of the Sovroms, but thereafter the Rumanian government became the sole Rumanian shareholder. It is not clear how the USSR has financed its contribution to Sovroms established since 1945. The Rumanian press stresses Soviet technical aid and the delivery of Soviet equipment but does not explain the corresponding entry in the capital accounts of the Sovroms. It is possible that the Soviet contribution consisted either of reparations

\* In many cases it is clear that the USSR took over the entire assets of German-owned firms, repudiating any liabilities of the former owners. The Soviet contributions were thus less than the USSR claimed, since the Rumanian creditors were deprived of their claim to a portion of the German assets.

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payments or of profits of existing Sovroms. These would be retained in Rumania and treated as capital of new Sovroms instead of being transferred to the Soviet bilateral clearing account and charged against Rumanian exports.\*

Rumania's contribution to the capital of the Sovroms appears to have consisted of natural resource-bearing areas for extractive industries, and either all or a portion of the fixed assets for manufacturing, transportation, and banking concerns. No information is available regarding the contribution of working capital.

III. Organization and Control.

Each Sovrom had a managerial board composed of representatives of the stockholding governments. This board chose a president, who was usually a Rumanian national. There was also a director-general and a commercial director, who were reportedly Soviet citizens. The Rumanian government, however, may well have been stripped of power in the organization, since the members of the managerial board were selected by the personnel service of the Communist Party. It would seem, therefore, that these members must have been either loyal Communists or people whom the Communists could control. 97/ The president of the board was a figurehead, since the real power was exercised by the director-general and the commercial director, who made all decisions for the company. 98/ According to the agreements establishing the Sovroms, the director-general maintained a liaison with the appropriate Rumanian ministry and was in a position subservient to the minister. It appears, however, that the director-general acted independently of the minister, either upon his own discretion or in consultation with the Soviet commercial representative in Rumania or on orders from

\* One report claims that in fact the Soviet contribution to Sovrom capital consisted of reparations as well as of former enemy property. 96/

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Moscow delivered directly to him, depending upon the importance of the problem.\* 99/

Although it appears that the USSR managed the Sovroms, there remains the question of how the directives were channeled from Moscow to the Soviet Sovrom officials. There was also a problem as to how the Soviet government determined the extent to which these orders were carried out by the individual Sovroms. In determining the chain of command from Moscow to Rumania, it is significant to note that when the Sovroms were organized, the chief Soviet negotiator was reportedly one Zheleznikov, who was a delegate from the Soviet Planning Commission. It does not seem out of line to assume, therefore, that the Soviet Planning Commission created the Sovroms to its own liking and that it retained control over them. There is the possibility, however, that the planning of Sovrom production and investment was subsequently taken over by CEMA, since these functions were assigned to CEMA in the protocol establishing the organization.

The next level in the chain of command may well have been the Soviet commercial representative in Rumania. There are three indications that this was the case. First, when the Sovroms were organized, Zheleznikov was aided in negotiations by A.N. Finogenov, chief Soviet commercial representative in Rumania. Second, as of 1950 the Sovroms had no central office in Rumania. Their interests were handled by the Soviet commercial representative. Third, whenever the director-general encountered a problem of importance, his first

\* The organizational structure of the Sovroms paralleled that of the Soviet-Hungarian joint companies 100/ and probably also that of the Soviet-Bulgarian companies. The structure of the Sino-Soviet joint companies, according to the agreement under which they were established, differed from Bloc countries in that provision was made for a rotation between Chinese and Soviet personnel in the chief administrative and executive positions at 3-year intervals. ("Soviet Economic Aggression in Sinkiang," Ministry of Foreign Affairs Nationalist China, no date, UNCLASSIFIED.) The superior positions were occupied by Soviet personnel whose terms of office were due to expire in March 1953. Available information indicates, however, that the USSR had not abided by the contractual agreements -- that is, they had taken complete charge of technical levels and had received more than 50 percent of the companies' profits. 101/

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appeal was to the same commercial representative. In view of this evidence, it seems likely that the Soviet commercial representative acted as a director for the Rumanian Sovroms and received his orders from the Soviet Planning Commission.

Although there is no information available stating the means by which the Soviet Planning Commission (assuming that this was the controlling body) surveyed the conduct of the individual Sovroms insofar as they carried out Soviet directives, it is possible that this surveillance function was handled by the Soviet commercial representatives through the Sovrombanc. This institution was entrusted with the accounts of all the Sovroms, recording all deposits and withdrawals. For each Sovrom there were four separate accounts, divided into (a) current accounts, in which were recorded payments and receipts and subsidies received from the Ministry of Finance; (b) industrial accounts, to which were credited the value of goods ready for sale; (c) operational accounts, in which the industrial installations were pledged as security for credit; and (d) investment and amortization accounts, which are self-explanatory. 102/ Since all financial transactions of the Sovroms were required to appear on these accounts, it was possible to check upon their activities.

IV. Sovrom as a Tool of Soviet Integration of the Rumanian Economy.

Soviet policy in Rumania during the period from 1945 to about 1950 was characterized by attempts to rehabilitate the economy and to establish control over factors of production and trade. The German enterprises transferred to the USSR offered the USSR an opportunity to secure a foothold in Rumanian industry through which they could aid in rehabilitation and eventually establish a grip upon the economy. By creating joint companies under the guise of joint control, the USSR was able to maintain this foothold and gain a favorable propaganda device without immediately instilling fear of domination. The Soviet writers played upon this theme in the following fashion:

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From the beginning of their operation, the joint companies were an important factor in the rehabilitation and further development of the economy, and strengthening of the Socialist elements in the economy of the people's democracies ... . The equal participation in the joint corporations guarantees the just distribution of their profits, the equality

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of outlays on rehabilitation, repairs and expansion of their fixed capital, and the quality of all other rights of the participants of these corporations.\*

The Sovroms appeared to have exercised monopoly positions in their respective fields of operation. The first of these joint companies were established in three key phases of the economy. For the exploration and exploitation of Rumania's most important natural resources, Sovrompetrol and Sovromlemn (lumber) were organized. In transportation the USSR created an air transport enterprise, TARS, and a marine transportation enterprise, Sovromtransport. To handle the financial affairs of these companies, the Sovrombanc was created through a merger of several former German banks.

Since 1948 the scope of the joint companies has been extended to include three more extractive industries, coal, uranium, and natural gas; industries manufacturing machines, chemicals, tractors, oil-production equipment, ships and naval equipment; and an enterprise for road and bridge construction. In the financial field an insurance enterprise called Sovromsigurari has been established. Thus, in summary, the USSR through the joint companies appears to have gained control of the extractive enterprises, the important manufacturing industries, and the means of air, river, and sea transportation. The financial transactions of the joint companies are also under Soviet control through the Sovrombanc.

As another step in the Soviet plan of integration, the Sovroms have been used as a tool for sovietization of the Rumanian economy. The Sovroms served as "laboratories" in which Soviet technical and administrative methods were applied to Rumanian industry. When new methods were developed by the joint companies, they were transmitted to state-owned industries, thus increasing uniformity along Soviet lines.\*\*

The USSR also utilized the Sovroms as a means of controlling Rumanian distribution and allocation. Officially, the Rumanian ministries determined allocations by estimating production and balancing this against the demands of consumers, both local and foreign. This system is explained by one Soviet writer as follows:

\* M. Paromov, "Formy i metody ekonomicheskogo sotrudnichestva mezhdru SSSR i stranami narodnoy demokratii," Voprosy ekonomiki, December 1950.

\*\* Rumanian News, No. 208, 9 November 1952.

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The [joint] corporations subordinate their activities to the national interests of the countries in which they are located . . . . Their activity, like that of the entire economy, is directed by the economic plans of the people's democracies. These plans determine the nomenclature and volume of production, the prices of the goods produced, and the sales procedure. The entire output of the joint corporations is put at the disposal of local business and trade organizations, which sell it in accordance with the economic plan on the internal market of the country, or transfer it in part to foreign trade organizations for sale abroad, in order to make possible the imports of goods necessary for the economic development of the country.\*

Available evidence indicates, however, that the Sovroms do not recognize this subservience of the company to the local ministry. Because of the influence of the Sovroms over the Rumanian economy, they were in a position to dictate to the ministries the plans which they have received from Moscow. A former employee of Sovrompetrol has described an allocations meeting between certain Sovroms and the Rumanian Ministry of Mines and Petroleum:

The local allocations were adjusted from month to month in accordance with export needs by a special commission which met in the Ministry of Mines and Petroleum. Its members consisted of a member of the Ministry, a representative (Russian) of Sovrompetrol, a representative (Russian) of TARS, a representative of Competroil (the Rumanian State Company for local oil supplies), and a representative of the Army. The casting vote on the Commission belongs to Sovrompetrol as far as oil products are concerned, and to TARS as regards aviation gasoline. These two representatives successfully opposed the Minister himself, even in connection with total production, including that of the purely Rumanian company, Muntenia. Even Army requirements were cut if the Commission required this, and it received no aviation gasoline without the approval of TARS. 103/

\* Paromov, op. cit.

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If this case is typical of the relations between the Sovroms and Rumanian industrial ministries, it can be concluded that the operations of the Sovroms formed the core of Rumanian industrial activity, about which the Rumanian-administered enterprises were required to adjust themselves. While the allocations referred to in the preceding citation relate to petroleum products, it is likely that they would have to be supplemented by allocations of such things as labor, materials, and fuel. Priority in the field of output planning would have to be supplemented by priorities in industrial supplies, if the Rumanian output authorities were to be prevented from achieving through indirect controls what they could not achieve by direct controls over Sovrom plans. It is likely, therefore, that some sort of effective priority was given the Sovroms in the matter of obtaining supplies, including imported supplies. Whether this was overt or merely a tacit arrangement within the Rumanian administrative system is, however, not known.

V. Transfer of Sovroms to Rumanian Ownership.

Since 1952 there have been rumors that some Sovroms had been or were to be liquidated. These rumors became even more persistent during 1953, and by early 1954 there were indications that some Sovroms had already been disbanded. 104/

On September 1954 the Soviet press announced that the transfer of 12 Soviet-Rumanian joint companies to Rumanian ownership had been provided for in agreements signed by the 2 governments on 31 March 1954 and 18 September 1954. Although definite information is still incomplete on a few of the Sovroms, it is clear that the only companies not returned to Rumanian ownership were those of major importance to the Russian economy: namely, the Sovroms for uranium and petroleum. 105/

The press announcements merely state that the agreements provide for payment by Rumania "on favorable terms with installments over a series of years." There is one indication, however, that the sale price contracted in March was \$800 million to be paid for in goods over a 10-year period. 106/

Despite the fact that Rumania was to exercise direct management of the day-to-day operations of these 12 companies immediately upon transfer, the USSR has retained the joint uranium and petroleum stock companies and maintains general control of the Rumanian economy

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through Party and government channels and through Soviet advisory personnel. One of the media through which these Soviet officials would operate is, presumably the Rumanian Chamber of Commerce, where reportedly a number of key Soviet personnel have been transferred to effect continued control over Rumanian industry and trade. 107/ This suggests that the USSR is merely changing the mechanism for control over the Rumanian economy to reduce anti-Soviet sentiment.

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APPENDIX C

SOME ASPECTS OF RUMANIA'S EXTERNAL ACCOUNTS  
WITH THE USSR, 1945-51

I. Introduction.

The purpose of this appendix is to examine Rumania's external accounts with the USSR for the years 1945-51.

II. Trade Components.

A. Commodities.

From 1947-51 the duration of the Rumanian-Soviet trade agreements was 1 year. The 1945 agreement, however, included trade for 1946, and the 1952 agreement, the first Rumanian long-term agreement with the USSR, covered a 4-year period. 108/ Attached to each agreement were two lists of goods, one setting forth Rumanian deliveries for the period covered; the other, Soviet deliveries. Provision was made in the agreements for modification and amplification of the attached lists by agreement of both parties.\* 109/ Besides those goods included in the attached lists, allowance was made for deliveries under contracts negotiated between Soviet foreign trade authorities and Rumanian juridical and physical persons.\*\* 110/

The two lists stating the goods to be exchanged by each country are equal in value. Examination of the trade accounts is made quarterly or half-yearly, and if imbalances appear, these imbalances are supposed to be corrected as soon as possible.\*\*\* If the payments are not in balance at the end of the year covered

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\* Only in 1949 is there any record that modification of the lists took place. Modifications may have been made in other years.

\*\* These contracts may provide either for barter transactions or for transactions in which payment is made in currency fixed by the contract.

\*\*\* Quarterly examinations of the accounts were made from 1945-47. In the 1948 agreement, provision was made for half-yearly examination.

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by the agreement, the country with the adverse balance must liquidate its debt within a period determined by the trade agreement, usually the first quarter of the following year, by supplementary deliveries of goods, by transfers of freely convertible currency, or by transfers of gold.\* When both countries have not fulfilled their quotas as set forth in the agreement, the remaining goods must be delivered within an agreed period.\*\*

The accounts in which Soviet-Rumanian trade have been kept have varied somewhat. As of 1947, three types of prices were quoted in the various trade and payments agreements: "basic lei," "current lei," and "1938 dollars." 113/ By 1949, however, price lists in the trade agreements were quoted in rubles, 114/ and this practice has continued until the present. For convenience in analysis, all values may be converted into US dollars at the official rates of exchange. This practice has the advantage of creating a single unit of account, but it should not be assumed that the prices in question bear any necessary relation to US, Soviet, Rumanian, or, in fact, any real prices. As has been shown in the report, the prices used in international trade are fixed by a bargaining process, which, in the case of Soviet-Rumanian trade, amounts to arbitrary price-fixing by the USSR.

Table 2\*\*\* gives a summary of Soviet Rumanian current payments for the period 1945-51. It is a condensation of the more detailed Table 3,\*\*\*\* which shows the entries in individual trade, reparations, and noncommercial accounts. Table 2 indicates that although current payments were in balance over the period 1945-51, Rumanian exports were not equal to Rumanian imports, because of (1) reparations payments and restitution of property by Rumania; (2) an unplanned Rumanian current trade deficit in 1945-46, which involved extension of the trade agreements (with an implicit credit

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\* The balances of the 1945 and 1947 trade accounts were carried over to the middle of 1948. The 1948 and 1949 trade agreements specified that balances had to be liquidated 3 months after the termination of the trade agreements; the dates of termination were set at 31 December of the year covered by the agreement. 111/

\*\* The unfulfilled quota of the 1945 trade agreement was cleared by deliveries during 1947, and the balance of the 1947 trade agreement was delivered by the middle of 1948. 112/

\*\*\* Table 2 follows on p. 111.

\*\*\*\* P. 117, below.

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by the USSR) into 1947; (3) a loan by Rumania to the USSR in 1947; and (4) the transfer of the Soviet portion of the profits of the Sovrom corporations in 1945-51. If the information on which this analysis is based is correct, current Soviet-Rumanian payments were held in balance over this period without transfers of gold or foreign exchange.

Table 2

Summary of Rumanian Current Balance of Payments  
with the USSR a/  
1945-51

Million US \$					
Year	Rumanian Exports	Rumanian Imports	Balance	Net Reparations and Other Capital Movements	
				Reparations	Other
1945-46	124.5	- 24.8	99.7	101.3	- 1.6
1947	55.3	- 22.4	32.9	38.1	- 5.2
1948	62.2	- 30.4	31.8	29.2	2.7
1949	124.2 to 139.2	- 94.0 to 109.0	30.2	20.2	10.0
1950	148.7 to 166.7	-122.0 to 140.0	26.7	20.2	6.5
1951	166.7	-140.0	26.7	20.2	6.5

a. Items may not add to totals because of rounding.

B. Services.

The Protocol for Noncommercial Payments, 1948, states the following regarding service charges:

Payment of the balances resulting from charges made by the railway, post office, telegraph office, telephone office, and air communications will be made under agreement by the parties in free convertible exchange or by transfer into the accounts provided for by Article 5 of the above mentioned Agreement. 115/

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The agreement referred to is the Trade and Payments Agreement for 1948, and the accounts are those through which trade payments are cleared.

C. Capital Transactions.

In 1947 an emergency loan of US \$10 million in the form of merchandise credits was established in the Soviet State Bank in favor of Rumania. This loan appears to be the only short-term loan granted by the USSR to Rumania. 116/

Soviet contributions to the capital of joint companies has been in two forms. A portion of the contributions was in the form of former German assets which had been transferred to the USSR under the Potsdam Agreement. Such contributions would not appear in Rumania's external accounts. Other contributions have been in the form of capital equipment and technical aid and advice. The means by which such transfers took place are not definitely known. An examination of the Rumanian balance of trade does not show a surplus of Soviet shipments other than the goods shipped under the 1947 loan. No record is available after 1946 for total yearly shipments of goods as reparations payments; therefore, it is possible that the USSR contributed to joint company capital by transferring to the companies a portion of the goods which were to be delivered as reparations. There is also the possibility that Soviet shipments of capital goods to the companies were made under special contract, as provided for in the Trade and Payments Agreement of 1948. Such shipments are made over and above the quota contained in the agreement, and, since only shipments made under the agreement have been reported, there is no record of goods shipped under special contract. There is the final possibility that the USSR reinvested in new Sovroms a portion of the profits derived from previously established joint companies. This possibility is strengthened by an examination of the Soviet share (50 percent) of Sovrom profits which were reportedly transferred to the USSR between 1945 and 1949. These transfers averaged the equivalent of about US \$4 million per year, indicating that total annual Sovrom profits were of the order of magnitude of US \$8 million. This amount appears, however, to be a rather small profit for industries which were rapidly assuming a monopoly position in the Rumanian economy. It appears, therefore, that a portion of Sovrom profits was probably reinvested as Soviet capital contributions.

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Transfers by Rumania of dividends, profits, interest, and rents are made in the form of Rumanian exports to the USSR. These exports are over and above those included in the trade agreements.\*

The amounts of transfers for embassy and consulate expenditure are not known. These amounts, however, are probably not very significant.

No information is available concerning the method of transfer of fines for late shipments or faulty goods. Special accounts probably are maintained for these transfers.

The period of payment for reparation and resitution of property obligations placed upon Rumania by Articles 11 and 12,\*\* respectively, of the Armistice Agreement was originally 6 years. In 1946, however, the term of payment of obligations under Article 11 was extended to 8 years. The reparations were set at US \$300 million with transfer in the form of goods at 1938 prices. On 1 July 1948 the balance due on the reparation account was reduced by 50 percent.\*\*\* The value of the property which Rumania was obliged to return in goods to the USSR was reduced in 1947 from 300 billion lei (US \$82,530,949) to 100 billion lei (US \$27,510,316) at prices prevailing in Rumania up to 1 April 1945. 118/ Probably payments under Articles 11 and 12 were made through a special account. No information is available after 1946 concerning total payments made by Rumania. Scattered reports have been made, however, of specific commodity shipments.

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\* In 1947 the funds were transferred by the export of goods appearing in a specially prepared list. The 1948 transfers (which were not shipped until 1949) and the 1949 transfers consisted of exports of the same goods listed in the trade agreement over and above the quantities included in the lists. 117/

\*\* Rumania at the Peace Conference, Paris, 1946. Article 10 of the Armistice Agreement provided for regular payments by Rumania for the maintenance of Soviet Occupation Forces in Rumania and would therefore not appear in Rumania's external accounts.

\*\*\* New York Times, 15 July 1948. Margaret Dewar, Soviet Trade with Eastern Europe, 1945-1949, Royal Institute of International Affairs, London and New York, 1951, p. 83.

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III. Balancing of Accounts.

Separate accounts are maintained for each trade or payment component entering the balance of payments except in the case of the trade account, which also includes payments of services. Each account must be balanced independently of other accounts; however, by special agreement it is possible to balance one account against another. The 1948 and 1949 Trade Agreements specified that each account must be balanced within 3 months of the termination date of the agreement. The balances of the 1945 and 1947 trade accounts were, however, by special agreement, not cleared until the middle of 1948.

IV. Trade and Payments Accounts of Rumania with the USSR, 1945-51.

The format of Table 3\* differs from the usual balance of payments table because of Soviet insistence on separate accounts which must be balanced independently of other accounts (except by special agreement). Also, yearly balancing of all accounts is not required, since in many cases net credits or debits have been carried over into the following year. The table has, therefore, been constructed according to this emphasis on individual accounts.

Table 3 is divided into two major columns. The first is entitled "Rumania's Commercial Payments to and from the USSR" and includes the trade and payments accounts of Rumania with the USSR. The second is headed "Rumania's Noncommercial Payments to the USSR." Under this heading are listed the accounts for repayment of the 1947 loan, for the transfer of Sovrom profits, and for reparations and restitution-of-property obligations. There is no record of Soviet noncommercial payments to Rumania.

The following accounts appear in the table:

Trade Account: This account covers payments for commodities and services, although no information is available for service charges. The trade account may continue by agreement beyond the year for which it is provided until all payments have been received or until the trade quotas are fulfilled.

1947 Loan Account: Although the official name of this account is unknown, it is referred to here as the 1947 Loan Account. Through this account, Rumania repaid the USSR for the 1947 US \$10 million loan.

\* Table 3 follows on p. 116.

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Noncommercial Payments Account: Each year a noncommercial payments account is established through which joint company profits, interests, rents, and dividends are transferred. These accounts may also be carried over into subsequent years.

Compensation Account: This account covers payments by Rumania to the USSR for joint company profits due the USSR and not transferred to the latter during 1945-46.

Reparations Account and Restitution-of-Property Account: Through these accounts, obligations imposed upon Rumania by Articles 11 and 12 of the Armistice Agreement are paid. The values stated in the table are based on 1938 prices for reparations and 1945 prices for restitution of property. Also included in the table are the current value equivalents for each reparations or restitution payment.

In compiling this table, it has been impossible, because of lack of information, to include all trade components. No data were available on services, investments, gold and foreign exchange transfers, and other components. The major items, valuewise, of the Rumanian-Soviet trade, however, have been entered in the table. Figures which are estimates of assumed deliveries have been so footnoted. After 1947, only proposed trade figures are available, but it is assumed that the deliveries to the USSR took place, since quotas set forth in the trade agreements are expected to be fulfilled. It has further been assumed that annual reparation and restitution-of-property obligations have been met. This assumption is based upon a 1946 report 119/ that the quantity of goods to be exported under the 1946 Trade Agreement could be determined only after obligations under the Armistice Agreement were subtracted from total goods available for export. If in 1946 the Armistice obligations held priority over all other exports, it is probable, because of increased Soviet control over Rumania, that fulfillment of these obligations continued in subsequent years.

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Table 3  
Trade and Payment Accounts of Rumania with the USSR  
1945-51

Thousand US \$ Equivalent

Rumania's Commercial Payments to and from the USSR					Rumania's Noncommercial Payments to the USSR			
Year	Account	Receipts (Exports)	Payments (Imports)	Balance + or -	Account	Outstanding before Payment	Amount Paid	Amount Outstanding
1945 and 1946	1941 Trade Account a/*				Reparations Account (1945) c/	300,000	56,500	243,500
	Balance in favor of the USSR		N.A.	N.A.	Reparations Account (1946) d/ (1945-46 Adjusted to current prices)	243,500	29,214 e/ (168,069)	214,286
	1945 Trade Account b/ 120/ Deliveries	23,161	24,802	-1,641	Restitution of Property Account 122/	82,531	15,583	66,948
1947	1945 Trade Account b/ 123/ Balance brought forward		1,641		1947 Noncommercial Payments Account j/ 127/	2,342	639	1,703
	1947 Deliveries	3,821	1,380 f/ 500 f/		Compensation Account k/ 128/	1,000		
	Compensation due the USSR				Paid under 1945 trade account		500	
	Total	3,821	3,521	300 g/ 124/	Paid in goods		500	
	1947 Trade Account 125/ Deliveries	12,228	20,997		Total	1,000	1,000	
	Credit from US \$10 million				Reparations Account	214,286	35,714 l/	178,572 1/
	Loan granted by the USSR	8,074 h/			(Adjusted to current prices)		(83,281)	
	Total	20,302	20,997	-695 1/ 126/	Restitution of Property Account	11,927 m/ 129/	2,385 m/	9,542 1/
	1947 Trade Account n/ 130/ Balance of 1947 trade account		695		(Adjusted to current prices)		(2,608)	
1948	Balance of 1945 trade account	300			1947 Loan Account o/ 132/	10,000	2,500	7,500
	Balance of US \$10 million				1947 Noncommercial Payments Account 133/	1,703	1,703	
	loan	1,926			Reparations Account			
	Supplementary delivery of				Jan-Jun 1948 p/	178,572 1/	17,857 1/	160,715 1/
	goods	3,870	5,401		Jul-Dec 1948 q/	80,357 1/	8,929 1/	71,428 1/
	Total	6,096	6,096		(Adjusted to current prices)		(69,175)	

\* Footnotes for Table 3 follow on p. 118.

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Table 3  
Trade and Payment Accounts of Rumania with the USSR  
1945-51  
(Continued)

Thousand US \$ Equivalent

Rumania's Commercial Payments to and from the USSR				Rumania's Noncommercial Payments to the USSR				
Year	Account	Receipts (Exports)	Payments (Imports)	Balance + or -	Account	Outstanding before Payment	Amount Paid	Amount Outstanding
	<u>1948 Trade Account 131/</u>							
	Proposed trade and assumed deliveries	25,000	25,000		<u>Restitution of Property Account</u> (Adjusted to current prices)	9,542 1/	2,385 1/ (2,881)	7,157 1/
1949	<u>1949 Trade Account</u>				<u>1947 Loan Account 137/</u>	7,500	2,500	5,000
	Proposed trade and assumed deliveries	75,000 134/ to	75,000 to		<u>1949 Noncommercial Payments Account 138/</u>	4,500		
		87,000 135/ 19,000	87,000 19,000		1948 Sovrom profits due the USSR	4,500		
	Amplification of agree- ment p/ 136/	to 22,000	to 22,000		1949 Sovrom profits due the USSR	3,000		
	Total	94,000 to	94,000 to		Total	7,500	7,500	
		109,000	109,000		<u>Reparations Account</u>	71,428 1/	17,857 1/	53,571 1/
					(Adjusted to current prices)		(43,668)	
					<u>Restitution of Property Account</u> (Adjusted to current prices)	7,157 1/	2,385 1/ (2,728)	4,772 1/
1950	<u>1950 Trade Account s/ 139/</u>				<u>1947 Loan Account</u>	5,000	2,500 1/	2,500 1/
	Proposed trade and assumed deliveries	122,000 to	122,000 to		<u>1950 Noncommercial Payments Account t/</u>			
		140,000	140,000		1950 Sovrom profits due the USSR	4,000 1/	4,000 1/	
					<u>Reparations Account</u>	53,571 1/	17,857 1/	35,714 1/
					(Adjusted to current prices)		(42,926)	
					<u>Restitution of Property Account</u> (Adjusted to current prices)	4,772 1/	2,385 1/ (2,682)	2,387 1/

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Table 3

Trade and Payment Accounts of Rumania with the USSR  
1945-51  
(Continued)

				Thousand US \$ Equivalent			
Rumania's Commercial Payments to and from the USSR				Rumania's Noncommercial Payments to the USSR			
Year	Account	Receipts (Exports)	Payments (Imports)	Balance + or -	Account	Outstanding before Payment	Amount Paid Amount Outstanding
1951	1951 Trade Account 140/				1947 Loan Account	2,500 1/	2,500 1/
	Proposed trade and assumed deliveries	140,000	140,000		1951 Noncommercial Payments Account t/	4,000 1/	4,000 1/
					Reparations Account	35,714 1/	17,857 1/ 17,857 1/
					(Adjusted to current prices)		(48,371)
					Restitution of Property Account	2,387 1/	2,387 1/
					(Adjusted to current prices)		(3,025)

a. Economic Treaties and Agreements of the Soviet Bloc in Eastern Europe, 1945-1951, National Committee for a Free Europe. This account was created for the funds due the USSR on 26 February 1941 Trade Account. The USSR balance due on the 15 February 1936 Trade Account was added to the new account.

b. The delivery figure for Rumania is the average of a minimum-maximum estimate of US \$22,922,000-\$23,400,000. The value of the goods to be delivered was US \$26,982,000. The balance of the goods not shipped in 1945 and 1946 was carried over into 1947 under the same account.

c. Rumania at the Peace Conference, Paris, 1946, p. 105.

d. Ibid., p. 106.

e. Total amount due as reparations was US \$300 million, payable over a 6-year period. This period was subsequently extended to 8-years. The remainder due over the 7-year period, 1946 to 1952, was therefore US \$250 million, or US \$35,714,286 per year. The 1946 payment due of US \$29,214,286 was derived by the following method. Reparations due for 1946 were reported 121/ to be US \$47.3 million at 1946 prices. If the amount paid (US \$6.5 million) in excess of 1945 obligations is subtracted from the amount due in 1946 and the remainder of US \$29,214,286 (1938 prices) is divided into the reported payment of US \$47.3 million (1946 prices), the quotient obtained is 162, which is not out of line with a world price index using 1938 as a base year.

f. The balance of USSR shipments not delivered in 1945 and 1946 under the 1945 Trade Agreement was valued at US \$2,180,000. In the 1947 Protocol on Collaboration it was agreed to reduce this amount by US \$500,000, thus leaving Rumania with a proposed excess over Soviet shipments of US \$500,000. This amount was considered to be partial payment by Rumania of a US \$1 million compensation due the USSR resulting from joint company profits not transferred to the latter in 1945 and 1946. The amount was, therefore, entered as a debit in the Rumanian account. Of the remaining Soviet shipments due in 1947 under the 1945 Trade Agreement, namely US \$1,680,000, the USSR delivered only US \$1,380,000.

g. The balance due was carried over to 1948 and transferred to the 1947 Trade Account which was also carried over into 1948.

h. In 1947 the USSR granted Rumania a US \$10 million loan in the form of "merchandise credits." Of this loan, US \$8,073,000 was utilized in 1947 and the remainder in 1948.

i. The Rumanian debt was carried into 1948 under the same account which was extended to 1 July 1948.

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Table 3

Trade and Payment Accounts of Rumania with the USSR  
1945-51  
(continued)

- j. These deliveries represented transfers to the USSR for interest, dividends, profits, rents, and so on. The total amount due in 1947 was US \$2,341,800, but only US \$639,083 was transferred. The remainder was transferred in 1948.
- k. For the payment of a US \$1 million compensation due the USSR for joint company profits not transferred in 1945 and 1946, it is assumed that an account, here referred to as the Compensation Account, was established. From this account, US \$500,000 was transferred to the 1945 Trade Account. (See note f, above.) The remaining US \$500,000 was paid to the USSR by supplementary shipments.
- l. Assumed.
- m. Total restitution-of-property payments due were reduced from US \$13,775,158 per year for 5 years to US \$2,385,392 per year for the same period.
- n. This is one of the few cases involving inter-account clearing.
- o. The total credits granted Rumania under the 20 February 1947 loan were US \$10 million. Since the 1948 and 1949 yearly payments on this loan were \$2.5 million plus interest, the assumption is made that the payments were extended over a 4-year period at US \$2.5 million plus interest per year. No information is available concerning the rate of interest.
- p. New York Times, 15 July 1948.
- q. On 1 July 1948, the Soviet government reportedly reduced the amount of outstanding reparations from Rumania by 50 percent. It is assumed here that half of the original payment for 1948 was made by the end of June. Thus the balance due on 30 June of US \$160,714,285 was reduced by 50 percent, making US \$80,357,143 outstanding on 1 July 1948. This estimate places the amount due after reduction at a higher figure than other estimates. One writer, without giving his source, claimed that deliveries made by the end of June were "officially" put at US \$153 million and that the amount due after reduction was US \$73.2 million. Another source estimated the amount due after reduction to be US \$55 million. (New York Times, 15 July 1948).
- The estimate made in this report is based on the hypothesis that, before the reduction, the Rumanian government was not in a position to pay more per annum than necessary to meet the US \$300 million obligation extended over an 8-year period.
- r. An annex to the 1949 Trade Agreement was signed in July 1949. This annex provided for an amplification of the Trade Agreement by an additional exchange of goods equal in value to 25 percent of the original quota.
- s. The 1950 Trade Agreement provided for a 30-percent increase over the quota of the 1949 Trade Agreement.
- t. This figure is based on 1948 and 1949 joint company profits. With the number of joint companies increasing in 1949 and 1950, it is possible that joint company profits due the USSR surpassed this figure.

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101.  
102.  
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105.  
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108. National Committee for a Free Europe. Economic Treaties and Agree-  
ments of the Soviet Bloc in Eastern Europe, 1945-51, 1945-46 Trade  
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USMR. Allied Control Commission (ACC) for Rumania, 11 Mar 47,  
1947 Trade Agreement, signed 20 Feb 47, S.

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113. Ibid., Dsp 1485, 5 Apr 47, S.

114. Ibid., Dsp 489, 10 Dec 49, S.

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116. Ibid., Dsp 110, 9 Mar 49, S.

117. Ibid.

Ibid., Dsp 110, 12 Apr 48, S.

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122. [REDACTED]  
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130. State, Bucharest. Dsp 212, 12 Apr 48, S.  
131. JANA, Rumania. R-155-48, 20 Mar 48, S.  
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133. Ibid.  
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137. Ibid., Dsp 110, 9 Mar 49, S.  
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